

**FDIS**

# DAILY REPORT

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PRC OFFICIAL'S OUTLOOK ON 1987 WORLD SITUATION

HK070853 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 1, 5 Jan 87 pp 3-4

[Article by Huan Xiang (1360 6763), general director of the State Council International Problems Research Center: "Outlook for the International Situation in 1987"]

[Text] I. In my view, the two superpowers will both concentrate on solving their domestic issues in 1987, and it will be hard for them to take a substantial step forward on major international issues, but there is still a possibility of adopting some minor and tactical detente measures.

According to some data made public by the Soviet authorities, Gorbachev's economic reform in the past 2 years has not made substantial progress. In essence, reform in 1985 and 1986 merely consisted of some trials to expand the decisionmaking power of enterprises, and such reform has encountered all kinds of resistance. Like similar reform in China, it is never easy to overcome the difficulties. In 1987, reform will be carried out in the price system, planning system, and financial and monetary system, and there will be more difficulties. Therefore, the Soviet party and government leadership will have to concentrate on reform and go all out to cope with the problems in the process of reform.

In the United States, the issue of how to cut down and finally eliminate the financial and foreign trade deficits was already a nut too hard for the Reagan administration to crack. The victory of the Democratic Party in the mid-term elections, which enabled the Democrats to hold the majority in Congress, added more difficulties to Reagan's White House in dealing with the knotty problems. Recently, the sudden emergence of the secret arms deal with Iran has seriously damaged Reagan's personal prestige and his government's credibility at home and abroad. Of course, in many major aspects, this event is quite different from the "Watergate incident" in the past. Reagan admitted his mistakes in the handling of this case after hesitation for a short time, thus showing his smartness. However, it seems that it will take at least 6 to 7 months to clearly account for the details of the whole deal to the U.S. Congress, the American public, allies of the United States, countries in the Middle East, and the whole world. Even so, the balance of political power in the United States (between Congress and the President, between the Democratic and Republican parties, and inside the government) will certainly be more unfavorable to the people in power. It is believed that Reagan and his government will have to make great efforts to cope with such a situation.

For these reasons, I expect that the two superpowers will not take substantial steps forward on the international stage. They are unlikely to create new tensions and it will be hard for them to bring about detente to a substantial degree. However, proceeding from their respective interests, the two sides may still assume a posture of detente.

On the issue of the arms race, since the summit in Iceland, the two sides have continued to accuse each other of "backing out from the original position." In fact, both sides made some retrogression. The present issue is how to stop retrogression and seriously seek a way to restart and advance the talks. Obviously, this is still very difficult. The arms control talks are related to too many things. They are not only related to the "Star Wars plan" of the United States, but are also entangled with the issues of human rights, "hot spots", conventional weapons, and chemical weapons. Moreover, the talks on controlling nuclear weapons alone were very complicated as they included many technical details and needed careful and meticulous consideration. [paragraph continues]



So, how could we hope that the talks would achieve quick results? In particular, the two sides now still have to cope with many knotty problems at home.

However, in order to maintain the vulnerable detente tendency which has cost them so much painstaking effort over the past year and more, the two superpowers may continue to take a minor step forward, which will also be favorable to the handling of their domestic issues. For example, they may reach some agreement on the issue of controlling intermediate-range missiles, which may not affect the overall situation, but may improve the atmosphere and win popularity. So, it is still possible such a step will be taken. It seems that the United States will have to take more initiative if it wants the situation to develop in this direction.

On the regional "hot spots," it seems that the situation in general will continue to be deadlocked, but I do not rule out the possibility of the appearance of some new tendencies.

The Afghan War, the expense of manpower, materiel, and financial resources for supporting Vietnam's aggression against Cambodia, and stationing massive forces along the Sino-Soviet border have added a heavy burden and go against the "accelerative development strategy" the Soviet leadership is pursuing at home. Should the stalemate continue? Should more forces be added to the quagmire? Or should some steps be taken to gradually reduce the heavy burdens and finally solve the problems? It seems that it is time for the Soviet leadership to consider these questions in 1987.

In 1986, the Reagan administration stepped up the implementation of the so-called "low intensity conflicts" strategy. It pursued this strategy in the organizational structure, military strength, and economic strength and assumed the "strategic offensive against Moscow." Reagan asserted that unrest in all "hot spots" were "covered by the shadow of the Soviet Union, which stood behind the scenes" and assumed a tough line in approaching these problems. He did make some minor "achievements" in the handling of some regional "hot spots," but his strategy caused more and more worries and concerns at home and among allies. Many people of insight held that such strategy "tends to produce some effects opposite to the effects of propaganda" and "turns the situation into a test of American's 'will' and 'determination,' thus dragging America into a predicament which can be avoided at the beginning." The occurrence of the secret arms sale to Iran at this time just caused another unfavorable factor to this strategy of the United States.

II. Since 1985, the Japanese yen has appreciated sharply and the U.S. dollar depreciated by a correspondingly large margin. This brought about major changes in relations between Japan and the United States and reflected Japan's economic boost and the serious economic problems in the United States. It also indicated that economic contradiction between the two countries would further intensify.

After the appreciation of the Japanese yen and depreciation of the U.S. dollar, Japanese goods still held a growing share of the world market, while the export of American goods did not increase substantially. In the first 8 months of 1986, the U.S. trade deficit reached some 115.3 billion, an increase of 26 percent over the same period of the previous year. Some 50 percent of Japan's foreign trade surplus came from its trade with the United States. Japan now has a huge amount of surplus funds and has become the largest creditor country in the world. The annual U.S. trade deficit may have reached 200 billion in 1986, and the accumulated debts it owes exceed 2,000 billion. So, the United States is the largest debtor country in the world.  
[paragraph continues]

Therefore, the changes in the exchange rate of the two currencies did not change the situation in which Japan is superior to the United States, or at least have not yet produced such effects.

As a result of the appreciation of the Japanese yen, Japan's economic growth rate has been slowed down. However, it is generally estimated that as long as Japan maintains an annual growth rate of 3 percent, Japan's per capita GNP will surpass that of the United States by the year 2010.

There are many reasons for the fact that the U.S. economy fails to boom again. The most important reason is that the manufacturing industry in the United States became backward and products lost competitive power at home and abroad. This resulted in many difficulties in increasing exports and led to rapid increase in import of consumer goods. The American magazine FORTUNE described the American industry as suffering a "hollow disease." President Reagan recently adopted some measures to treat this disease. It was announced that December 1986 would be named "American Manufacturing Month." It takes time to cure such a "hollow disease" and the problems will not be thoroughly solved in 1 or 2 years' time.

Therefore, the United States will resort to more protectionism in 1987 and 1988, and the U.S. dollar will further depreciate. Japan, Taiwan Province of our country, and South Korea will have to bear more pressure from the United States in the matters of appreciating their currencies, expanding internal demands, opening wider their markets, and limiting exports to the United States. The contradictions between the United States and these countries and regions will become sharper. These countries and regions now still rely heavily on the American market in their export, and they will be forced to make further concession and compromise to the United States. This tendency will grow rather than decline in 1987.

The depreciation of the U.S. dollar and appreciation of the Japanese yen have affected other countries and regions to different degrees. Taiwan Province of our country and South Korea have benefited from this; the six ASEAN countries are not affected much; but Indonesia may encounter more difficulties as it owes large amounts of Japanese yen debts. This state of affairs will continue in 1987.

This state of affairs has caused concern among countries in the Pacific region, and there is a growing voice calling for cooperation to overcome difficulties. It seems that the tendency of Pacific economic cooperation will further advance. However, many people still place hope on Japan in the process of cooperation. Japan's investment tendency shows that it attaches importance to Europe and America and neglects Asia. Will Japan change this tendency? We still have wait and see in 1987 and 1988.

XINHUA VIEWS IMPACT OF NEW U.S. CONGRESS

OWO51338 Beijing XINHUA in English 1326 GMT 5 Jan 87

["Roundup: Confrontation Expected as New U.S. Congress Convenes (by Bao Guangren)" -- XINHUA headline]

[Text] Washington, January 5 (XINHUA) -- The 100th session of the United States Congress, which opens January 6, will see a number of new faces, new power brokers, and hot battles either between the Democrats and Republicans on Capitol Hill or even between the Congress and the White House.

Democrats, who now dominate both the Senate and the House of Representatives, will be more aggressive and anxious to push their own legislative agenda. The White House, now bogged down in the Iran arms scandal, is clearly on the defensive as the session begins.

The November 4 elections gave the Democrats a Senate majority in addition to control of the House. Democrat Senator Robert Byrd will succeed Republican Senator Robert Dole as the Senate majority leader. As well, all Senate committees will also be led by Democrats. Meanwhile, Democrat James Wright will replace the retired Thomas P. O'Neill as House speaker.

The Democratic majority on Capitol Hill will make it more difficult for Republican President Ronald Reagan to pursue his policies in his final two years in office.

On the session's first day, two separate committees from the House and Senate will publicly investigate the details of the sale of American arms to Iran. Investigators will want to know how Reagan's staff had flouted Congress and illegally diverted the proceeds to the contras.

The lawmakers may also wonder why President Reagan, the chief executive, did not know of the contra diversion as he claims or whether his version fits with the facts.

At the same time an independent counsel, similar to the one which investigated the "Watergate" scandal, will also evaluate the conduct of some of Reagan's aides, including the legality of their conduct. The probe into the scandal, already a big headache for Reagan, will certainly jeopardize his effectiveness in the future if not his presidency.

In addition to the arms scandal, high on the congressional agenda will be the budget deficit, the ominous trade gap and arms control.

Reagan will have his 1988 budget waiting for congressmen when they take their seats tomorrow. To comply with the Gramm-Rudman-Hollings balanced budget requirements, the President had to keep the deficit under 108 billion dollars.

While he vowed not to raise taxes or approve a budget that impairs national security, Congress will certainly oppose proposed cuts in aid to hard-pressed farmers, in welfare programs and other domestic projects to allow billions more for military spending.

Democrats in Congress will limit defense spending to avert cuts in domestic spending. They might even raise taxes, although that would be a politically-risky last resort.

The budget promises to be a major confrontation between the President and the Congress. The question is what compromises are possible to ease the friction?

As the U.S. continues to run massive external trade deficits, which stood at the 170 billion dollars in 1986 alone, Democrats continue their championing of protectionist trade legislation.

Both the new House speaker and the Senate majority leader have supported new trade laws against countries that allegedly restrict U.S. imports or subsidize their own exports to the American market.

The White House has said retaliation is not the answer and Reagan is expected to veto any protectionist moves. But in the coming months, Reagan will meet with greater pressure to take decisive action on the trade front.

It appears Congress is determined to deny the President's wishes and bring the U.S. back to compliance with the unratified SALT II treaty with the Soviet Union. The White House has officially acknowledged it breached the treaty after claims of extensive Soviet violations.

While the future of SALT II looks bright, a restive Congress is unlikely to be enthusiastic about spending 26 billion dollars for Reagan's Strategic Defense Initiative before 1990.

U.S. aid to Nicaragua "contras", Reagan's other favorite, faces an equally uncertain fate. Although they finally approved aid last year, congressional Democrats may scuttle support for contra efforts to topple the Sandinist Government of Nicaragua. Congress, which approved 100 million dollars for the contras last year, will vote in February on whether the final 40 million dollars of that aid will be disbursed. The revelations of the Iran arms scandal have added more difficulties to the contra aid.

Other issues to be discussed by Congress include the campaign against drug abuse, cutting Pentagon waste, health care, environmental protection and reforming the farm credit system.

Congress may offer to establish health insurance for serious illness and offer some form of coverage for long-term nursing-home care. A more urgent matter is a national program to battle the AIDS epidemic.

Massive government spending has so far failed to improve America's ailing farm economy. The government spent a record 26 billion dollars on farm support programs but low commodity prices and extensive surpluses are still driving farmers to bankruptcy. While everyone can agree the situation is bad, few can agree on a cure. Congress faces a challenge on this issue.

Laws against pollution are less controversial. Last year, Reagan vetoed Congress's clean-water bill worth 18 billion dollars and offered a 12 billion-dollar compromise law. It appears the House will revive the original bill and Senate support is likely.

Confrontations between a Democrats-controlled Congress and a besieged president may well be the outstanding feature of the 100th Congress. And legislation from congressmen is likely to prompt more vetoes from the Oval Office.



XINHUA REVIEWS REAGAN'S DEFICIT REDUCING BUDGET

OW060516 Beijing XINHUA in English 0248 GMT 6 Jan 87

["Reagan's 1988 Budget Cuts Deficit Despite Hikes in Military Spending" -- XINHUA headline]

[Text] Washington, January 5 (XINHUA) -- U.S. President Ronald Reagan today submitted to Congress his deficit-cutting budget for fiscal 1988 that raises military spending by three percent, cuts a number of programs and uses sales of government assets to raise revenue without tax increases.

The budget will eliminate the deficit "without raising taxes, without sacrificing our defense preparedness and without cutting into legitimate programs for the poor and the elderly, while at the same time providing needed additional resources for other high priority programs," said Reagan in a message to congressional leaders.

Leaders of Congress, mostly Democrats now in control of the House and the Senate, have called the budget unfeasible and needing changes from Congress. Accurate details of the budget leaked recently.

For fiscal 1988, defense spending will reach 312 billion dollars. That is a three percent increase over 1987 spending after a 3.6 percent inflation adjustment is included.

During the five years from fiscal 1988 to 1992, a total of 1.8 trillion dollars will be spent for military purposes.

To appease a congress which opposes bigger military spending while cutting domestic programs, Reagan calls for less money for weapons and equipment. The military acquisitions budget will be 84 billion dollars in fiscal 1988, down from 85.8 billion in 1987.

The 1988 amount is 57 billion dollars less than what Reagan planned for fiscal 1988 two years ago.

A graph in the budget report showed for every dollar to be spent by the federal government in fiscal 1988, 42 cents will go to direct benefit payments for individual Americans while 29 cents is spent on national defense. As well, 14 cents pays interest on government borrowing, 10 cents is for grants to states and municipalities and 5 cents pays for federal government operations.

The U.S. Government will have 1.024 trillion dollars to spend in fiscal 1988. As total revenue will amount to 916.6 billion dollars, the deficit will be 107.8 billion dollars.

This deficit is 200 million dollars less than the 108-billion-limit set by the Gramm-Rudman-Hollings balance budgeted law for this year.

The Reagan budget shows the deficit shrinking to 92.8 billion dollars in fiscal 1989, 59.5 billion dollars in 1990, 21.3 billion dollars in 1991 and become a surplus of 12.3 billion dollars by 1992.



These predictions are based on Reagan's projections of American economic growth, ranging from 3.2 percent for fiscal 1987, 3.7 percent in fiscal 1988 and remaining at 3.5 percent through fiscal 1991. Reagan foresees inflation slipping from 3.3 percent now to 2.3 percent in fiscal 1992.

In his budget message, Reagan blamed Congress for hindering his deficit cutting efforts.

"In each of the past four years, I have proposed a path to lower deficits -- involving primarily the curtailment of unnecessary domestic spending. Congress, however, has rejected most of these proposals. Hence, our progress toward reducing the deficit has been much more modest than it could have been," he said.

Reagan said the government should stop competing with the private sector. He proposes the elimination of the rural housing insurance fund, direct student financial assistance, urban mass transit grants, vocational education grants, rural electrification loans and so on.

Reagan also proposes the sale of the Naval Petroleum Reserves, the Amtrak passenger rail service and the Alaska Power Administration.

The sales, along with an end to a number of federal programs, will raise federal revenues to meet the Gramm-Rudman law without personal tax hikes.

The Reagan budget makes big cuts on government commodity price supports and other farm aid programs. They will dip from 25.3 billion dollars in the current fiscal year to 21.3 billion in the next and to 10.4 billion by 1992.

Medicare and Medicaid programs, designed to assist elderly citizens and the poor, will rise minimally from 71.6 billion dollars this year to 73 billion dollars in the next.

The budget proposes continued increases in basic research "that will lead to longer term improvements in the nation's productivity and global competitiveness."

For example, support for academic research from the National Science Foundation will double within five years.

Spending for federal law enforcement, tax collections, space flights and air traffic control will also be increased while that for food stamps, child nutrition programs and power generating programs will be cut.

Reagan also calls for more spending on international affairs, including international aid, from 14.6 billion dollars in fiscal 1987 to 15.2 billion in fiscal 1988, eventually to 18.1 billion in 1989.

Reagan's proposals will be tested in the next few weeks as the Senate and the House begin their budget hearings. Senator Lawton Chiles, a Democrat from Florida, and Representative William Gray, a Pennsylvania Democrat, will each preside over the hearings.

Both expressed doubts about likelihood of the budget passing intact during televised interviews Sunday.

RENMIN RIBAO CONSIDERS USSR REFORM EFFORTS

HK021041 Beijing RENMIN RIBAO in Chinese 25 Dec 86 p 6

[Year-end Special Feature by Zhou Xiangguang (0719 6272 0342): "Scoring Initial Results, Progressing With Difficulty -- Changes Brought by Reform in the Soviet Union Over the Past Year" --capitalized passages published in boldface]

[Text] THE YEAR 1986 IS A YEAR IN WHICH THE SOVIET UNION HAS GREATLY ADVOCATED REFORMS. ALTHOUGH THERE HAVE BEEN OPPOSITION, DIFFICULTIES, AND SETBACKS, THE ECONOMIC SITUATION OF THE SOVIET UNION HAS TAKEN A FAVORABLE TURN, and the situation of slow economic growth over the past decades has begun to change. According to the statistics of the first 10 months of this year, the industrial output value of the Soviet Union increased by 5.1 percent, labor productivity increased by 4.8 percent, and national income increased by 4.3 percent, all of which have overfulfilled the planned quotas for the year. ALTHOUGH NO SUBSTANTIAL PROGRESS HAS BEEN MADE IN THE REFORM, THE REFORM WAVE HAS BROUGHT ABOUT SOME CHANGES IN THE SOCIAL LIFE OF THE SOVIET UNION.

At the 27th Congress of the CPSU held at the beginning of this year, Mikhail S. Gorbachev sharply exposed the various maladies in Soviet society and the Soviet economy, and at the same time, frankly pointed out that these maladies were mainly caused by the "subjective factor" of the leadership's "mismanagement." The 27th CPSU Congress criticized the view that the socialist production relations and the socialist productive forces are "automatically suited to each other," and clearly pointed out that the present structures are already "outdated," and "some have become obstacles," and also formulated the "fundamental reform" policy. Since then, the CPSU Central Committee and the government of the Soviet Union have passed a series of resolutions and laws to push forward with the reforms.

Experiments Continue To Be Carried Out in Industry While Agriculture Scores Initial Results [subhead]

This year has been the further expansion of the reform experiment with stress on enlarging the decision-making power of enterprises. The enterprises which have carried out the reform experiments have generally raised their labor productivity. A few enterprises have also experimented with raising funds by themselves to develop production and establish social welfare facilities on the basis of a fixed quota for profit distribution, and have also achieved gratifying results in their experiments. However, according to the public opinion poll carried out by IZVESTIYA, only 5.3 percent of those interviewed believed that they had the real decisionmaking power in their enterprises. The investigation shows that the reform has rarely touched upon the "deeper level of the most important part of the production" because at present, the Soviet Union has not yet made an overall plan for the reform of its industry and its overall national economy. The reform has indeed solved some problems, but also exposed many other problems demanding prompt solutions.

Soviet agriculture has taken a favorable turn with this year's grain output reaching 210 million tons, a figure not reached since 1978. The agricultural output value of the Soviet Union increased by 100 percent over the quota set in the five-year plan. Obviously, relaxation of the agricultural policies, the implementation of the collective and household contract systems, and the raising of the purchasing price of the above-contract-quota grain have greatly aroused the enthusiasm of the farmers. [paragraph continues]

The development of the integrated bodies of agriculture and industry has accelerated the integration of the production department, processing department, and sales department, and made the three to jointly show concern for their final achievements. The practice of allowing the collective farms and state farms to sell 30 percent of the products covered by the state plan and develop trade markets has also promoted the circulation of agricultural products. In some areas, the practice of collective farms establishing and running small restaurants and food shops in the cities has also been welcomed by urban residents. However, as far as the overall situation is concerned, only 10 percent of the collective farms and state farms have gained a 40-percent profit, and the losing situation of the Soviet agriculture has not yet been changed.

#### The Economic Reform Pushes Forward With the Reform of the Superstructure [subhead]

The influence of the economic reform has gone beyond the economic field to promote the reform of the superstructure. This year, the enlargement of the power of the local Soviet governments has enabled the local authorities to bring into full play their initiatives in capital construction, the production of consumer goods and the development of the service trades. As far as the reform of the party's work is concerned, the CPSU has demanded the party committees at various levels to shift their work load onto the "work of dealing with people" and refrain from interfering in the functions of the administrative organs. As far as the cadres' selection and promotion are concerned, the practice of soliciting the opinions of the masses has been tried. In June of this year, the Soviet Union also formulated the general and specific policies for the reform of the educational systems of higher learning institutions and polytechnic schools, thinking that only stressing quantity and ignoring quality, excessive division of specialties, the separation of education from production and scientific research and so on are the reflection of the rough management methods in the educational system. As a result, the Soviet Union has proposed the integration of education, production, and scientific research, and the implementation of a contract system among the three in an effort to reduce the number of specialties in the higher learning institutions and polytechnic schools and train the qualified personnel with a wide range of basic knowledge.

Great changes have also taken place in the news media of the Soviet Union. This can be seen in the obvious increase of the number of criticism and exposure reports. Special columns have appeared in the newspapers, which invite the readers to express their opinions on questions of common concern. The television stations have also begun to present the program of round-table discussions on the social problems which are of direct concern to the everyday life of the masses, and the responsible persons in charge of the relevant departments are invited to answer the questions raised by the masses on the spot in such programs. This year, the Soviet authorities' decision to stop the construction of the projects of "diverting the northern water to the south" was made after accepting the suggestions of the masses. This decision has been considered a victory for public opinion. In August of this year, Moscow City in particular invited the reporters to a meeting to express their views, and then, the city decided to establish a system for regular news releases.

The reform wave has also unprecedentedly invigorated the literary and art fields. The articles attacking those who obstruct the literary and art reforms now often appear in the Soviet newspapers. The Film Workers' Association has set up a conflict investigation committee to re-assess the films which were banned in the past, and study the question of the "fate of creation" of some film directors. [paragraph continues]



[Klimov] [Ke li mo fu 0344 0448 5459 1133], the famous film director and leader of the Film Workers' Association said: "It is impossible to advance to the future without resolving the questions of fairness." The reform of the theatrical circles has also been carried out on a trial basis. Over the past year, operas touching upon some sensitive questions have also been staged.

#### The Success and Failure Is Determined by the Elimination of Obstacles [subhead]

Since the 27th Congress of the CPSU, the Soviet leadership has continued to condemn the people and the practices that obstruct the reform, repeatedly stressed that the reform is a revolution, and pointed out that resolute struggle must be carried out in order to carry on the reform. The people think that the reform has met with strong opposition. The huge bureaucratic institutions and rigid bureaucratic work style formed over the past decades have directly affected the reform process. Although a small number of leaders have been removed from office or have been replaced, it is still rather difficult to change the traditional work methods. According to the reports, even the ministries and commissions of the central government, which have carried out reform experiments for three years, now still operate according to their old practices. Although some powers were delegated to the lower levels, they have been retrieved through other administrative orders. A number of people are indomitably "struggling for their powers" for fear of losing their long-possessed privileges and positions. At present, the Central Committee of the CPSU is calling for streamlining the institutions, but many areas are still used to the leading methods of the bureaucratic institutions and are continuing to apply for the expansion of their establishments and the increase in the number of their institutions. Because the traditional concept of sticking to old ways has penetrated into the various social strata where a rigid criterion of right and wrong has long been formed, many people still adopt a wait-and-see attitude and have misunderstandings about the reform. What is more, the drop of the oil prices has caused a loss in the foreign exchange income of the Soviet Union, the nuclear accidents have also caused enormous economic losses to the country, and the huge military expenditure has long become a heavy burden for the Soviet economy. All the above mentioned factors have had a restrictive impact on the reform. So, although the top leaders of the CPSU has expressed determination on the reform and the Soviet authorities has also proclaimed that an overall reform will be launched next year, it seems that the Soviet Union's reform will still need many an effort to clear away the various obstacles and interference, and will only make gradual progress amidst continued explorations and experiments.

SPOKESMAN CLAIMS TROOPS REPULSE SRV ATTACKS

HK090356 Hong Kong AFP in English 0333 GMT 9 Jan 87

[Text] Beijing, Jan 9 (AFP) — A Chinese spokesman said Friday that Chinese troops had repulsed Vietnamese border attacks Wednesday evening, but did not comment on fresh Vietnamese reports of 1,500 Chinese casualties.

"It is learned that the provocative intrusions by the Vietnamese troops were repulsed in the evening of January 7," a Chinese Foreign Ministry spokesman said, responding to a previously submitted question about the latest flare-up in border fighting.

The official accepted without comment questions about Vietnamese reports Thursday that China had sent an infantry division across the border to attack hillside positions in northern Vietnam, with more than 1,500 Chinese casualties claimed by Hanoi during three days of fighting ending Wednesday.

The fighting, which both sides have indicated began Monday, followed a Chinese pledge to keep up military pressure on Vietnam as long as Vietnamese troops remain in Cambodia.

ZHONGGUO TONGXUN SHE COMMENTS ON SRV 'BRAGGING'

HK081352 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1152 GMT 8 Jan 87

[Commentary by Yu Jin (0060 0093): "Why Does Hanoi Brag?"]

[Text] Hong Kong, 8 Jan (ZHONGGUO TONGXUN SHE) — On 6 January, The Voice of Hanoi and the VIETNAM NEWS AGENCY claimed: The Vietnamese troops had "repulsed an attack by an entire Chinese division, killing 500 Chinese troops." Responding to the Vietnamese statement on the very next day, Chinese Foreign Ministry spokesman Ma Yuzhen pointed out: "The Vietnamese troops launched an armed provocation, but met with forceful counter-attacks from Chinese border defense guards. The so-called victory as announced by the Vietnamese troops is sheer bragging...." At the same time, a Beijing XINHUA dispatch said, on 5 January, "Chinese border defense guards repulsed attacks by Vietnamese troops, killing about 200 enemy troops."

The Vietnamese troops have continuously launched military provocations in the Sino-Vietnamese border areas since they started the aggressive war in Cambodia. Vietnam has bogged itself down in dire straits by using all its armed might to indulge in wars of aggression during the years, and making many enemies.

At the recent Sixth Congress of the Vietnamese Communist Party, several of its top-echelon members admitted in their speeches that Vietnam is facing a severe situation. The erroneous domestic and foreign policies pursued by the Vietnamese Communist Party leadership have reduced the confidence of the Vietnamese people in Hanoi. The recent Vietnamese military provocation in the Sino-Vietnamese areas, and the lie of Vietnam's "victory" were their old tricks to divert the Vietnamese people's attention, and to boost the ever falling morale of the Vietnamese troops in their aggressive war in Cambodia.



Although the Hanoi top-echelon personalities asserted their wish to talk with Beijing to improve the Sino-Vietnamese relations in their reports and speeches delivered at the Vietnamese Party Congress, Pham Hung, the No 2 figure of the new Vietnamese Communist Party Politburo regarded China as Vietnam's "basic, long-term, direct, and dangerous enemy" in his speech. Therefore, the recent incursion of the Vietnamese troops in the Chinese side of the border was another example of Vietnam continuing to pursue its anti-China policy.

The key to the question of why Vietnam dares to continue pursuing its anti-China policy lies in Soviet backing behind the scene. Ligachev, the No 2 figure of the Soviet Union, who attended the Vietnamese party congress said on the one hand, "it is hoped that China and Vietnam will restore the normalization of their relations through wise talks on the basis of equality," and said on the other, "the normalization of the Soviet-Chinese relations will be conducted on the principle that a third country will not be injured" in his speech delivered at the Vietnamese Party Congress. At the same time, he announced that the Soviet Union would greatly increase its aid to Vietnam, and hinted that the Soviet Union would continue to support Vietnam in its aggression in Cambodia, in order to sooth Vietnam, so that it would not worry about Soviet policy regarding China. Facts have proven that without Soviet backing and financial aid, Vietnam's aggressive policy on Cambodia and its anti-China policy would not last another day longer.

ANS SOLDIERS INSTRUCTED TO 'FIGHT FOR NATION'

OW081159 Beijing XINHUA in English 0837 GMT 8 Jan 87

["Feature: More Guerrillas Fighting in Kampuchea Interior (by Ma Shengrong)" -- XINHUA headline]

[Text] Bangkok, January 8 (XINHUA) -- Soldiers of the Nationalist Sihanoukian Army (ANS) who were to be sent to Kampuchea interior to fight the Vietnamese occupation troops were instructed that they were to fight "for the nation and not for a particular group."

Over 300 fully-armed ANS soldiers, led by Col. Kieng Vang and ready to off to inner Kampuchea [as received], lined up at a jungle base in Oddar Meanchey Province, Northwest Kampuchea, listening to the instructions of Prince Norodom Chalkrapong, ANS deputy chief-of-staff.

Kieng told the correspondent during his recent visit to Western Kampuchea that over 7,000 ANS soldiers have been sent into the interior and they have cooperated very well with the National Army of Democratic Kampuchea (NADK) and the armed forces of the Khmer People's Liberation Front (KPNLF).

A 38-year-old soldier, Khan Samach, having been sent to the interior provinces five times and fought 19 battles during his fourth mission to Kompong Cham Province in June 1986, said ANS troops and NADK forces jointly attacked an enemy position at Sangke District, Battambang Province and over 60 Vietnamese soldiers were killed.

ANS, NADK and KPNLF are the three armed forces of the tripartite Coalition Government of Democratic Kampuchea (CGDK) which fight for an independent, sovereign nation of Kampuchea.

On the other hand, Prince Charapong said ANS has developed rapidly over the past few years. It now has over 12,000 men, of whom 9,500 have been armed. Most of the soldiers have been sent to the interior, he added.

ANS forces have been carrying out its military activities in two operation zones which cover the provinces of Oddar Meanchey, Siem Reap, Kompong Thom, Pursat and Kompong Speu.

A senior ANS officer disclosed that in addition to ANS soldiers, there are also over 1,000 guerrillas operating there.

According to the statistics released by the ANS headquarters of the general staff, ANS military operations in the interior provinces made marked progress in 1986.

Over 900 enemies were killed and more than 1,000 others wounded during the January-November period last year. Besides, 60 Vietnamese barracks and seven ammunition depots were destroyed.

In face of a stronger Vietnamese occupation army, ANS has been resorting to guerrilla warfare tactics. Its officers said mobile jungle bases and field hospitals have been setup in some areas to mobilize the people and disintegrate the Heng Samrin forces.

New plans for the current dry season have been mapped out. Senior ANS officers disclosed that they have sent more than 1,000 soldiers into the interior provinces since October last year. Their major task is to cut Vietnamese transportation lines, attack enemy's positions and thwart their mopping-up operations.

ANS commander-in-chief Prince Norodom Ranarith told the correspondent in a recent interview that he is confident that ANS will surely achieve greater progress both in the military and political fields in the new year.

FINNISH PARTY LEADER SPEAKS AT PARTY SCHOOL

OW081320 Beijing XINHUA in English 1306 GMT 8 Jan 87

[Text] Beijing, January 8 (XINHUA) -- Chairman of the Finnish Communist Party [FCP] Arvo Aalto today spoke highly of the great achievements made by the Chinese people, saying that China's experience has shown that socialism can help solve the problems of developing countries.

In a speech this afternoon at a school of the CPC Central Committee he told teachers and students that New China has solved problems which most developing countries are still coping with.

He described the Chinese Communist Party as a great political party which has had an extraordinary experience and enjoys a high reputation.

Aalto said the Chinese people have a great future, the foundation of which lies in the creative work they are undertaking.

On party relations, he described as useful and necessary the approach of mutual understanding between the CPC and the FCP. Aalto described the CPC as being in a period of vigorous development while its Finnish counterpart is entering a new phase, he said.

In its contacts with other communist parties, he said, the FCP abides by the principle of complete equality and independence.

The FCP does not interfere in other parties' internal affairs, nor does it allow other parties to interfere in its own affairs, he added. It respects each party's right to choose its own way freely.

He also gave an account of the FCP's program and position on major international issues.

The current tasks of the FCP, he said, are to prevent nuclear war, to ease international tensions and to open a path to disarmament.

He called on the communists of the whole world to strengthen cooperation for peace and prevention of war.

The FCP and the CPC share identical views on this issue which concerns people most, he said. This is the foundation for strengthening the two parties' ties, he added.

Aalto described peaceful coexistence, equality and security as the foundation for lasting world peace adding that this is the only possible way for countries with different social systems to live together.

RENMIN RIBAO VIEWS WESTERN EUROPEAN UNITY

HK071427 Beijing RENMIN RIBAO in Chinese 6 Jan 87 p 6

["Jottings" by Chao Yang (2600 7122): "Going Toward a Multipolar World"]

[Text] Former FRG Chancellor Schmidt recently published an article in an FRG magazine, advocating that "Europe must become stronger by itself." This corresponded with Western European countries' reaction after the U.S.-Soviet summit in Iceland. That is, they are trying hard to unite and strengthen their cooperation in economics, and particularly in defense, for fear that they might become a sacrifice in a U.S.-Soviet deal some day. This indicates that as a part of the multipolar world, West Europe will play a greater role.

For a considerably long period, the whole world setup has been confrontation between the two blocs with the two superpowers as their centers. Facts have proved that due to uneven political and economic development, this setup will not last long. It will become more and more difficult for the superpowers to control the countries in their blocs. Some countries or country groups now play an increasingly important role in the world's political and economic affairs. The polarized world is becoming a multipolar world and there are more and more factors affecting the world situation. Since the establishment of the EC, Western Europe has strengthened its self-confidence in becoming an entity, and letting the whole world hear Western Europe's voice has become a common desire of all Western European countries.

This multipolar setup is beneficial to safeguarding world peace, because it will constrain many aspects of contention between the two superpowers to conduct the arms race at will, and help prevent a new world war. As a result of multipolarization, more countries will have a say in, and influence on, world affairs. This can help settle regional disputes and will also create conditions for solving some major international issues. Therefore, Schmidt's slogan that "Europe must become stronger by itself" not only reflects where Western Europe's interest lies, but is also a requirement for safeguarding world peace.

YAO YILIN RECEIVES FRENCH TRADE OFFICIAL

OW231100 Beijing XINHUA in English 0855 GMT 23 Dec 86

[Text] Beijing, December 23 (XINHUA) -- Chinese Vice-Premier Yao Yilin met Michel Noir, French minister delegate of the Ministry for External Commerce, and his party here today.

French Ambassador to China Michel Gonbal was present.



HU YAOBANG INVITES HUSAK TO VISIT CHINA

HK080246 Hong Kong AFP in English 0233 GMT 8 Jan 87

[Text] Prague, Jan 8 (AFP) -- Czechoslovak leader Gustav Husak has been invited to visit China by the leader of the Chinese Communist Party, Hu Yaobang, who is to visit Czechoslovakia, a high Czechoslovak Communist Party official announced on Wednesday.

Michal Stefanak also said in an interview with the publication TVORBA that the two sides were "on the way to gradual normalization of their relations". But he did not indicate the dates of the two trips.

He added that establishment of "concrete cooperation" between the two parties was recently discussed at the headquarters of the Czechoslovak Communist Party's Central Committee. Relations between the two communist parties were interrupted during the Sino-Soviet conflict of the 1960s.

ECONOMIC COOPERATION WITH SFRY WILL INCREASE

LD051400 Belgrade TANJUG in English 1120 GMT 5 Jan 87

[Text] Beijing, January 5 (TANJUG) -- Chinese-Yugoslav trade will double in 1987 and exceed 400 million dollars, deputy Chinese Minister of Foreign Economic Relations and Trade Wang Pingqiang has told Yugoslav reporters in Beijing.

Wang cited the excellent political relations between the two countries as a basis for expanding bilateral economic cooperation, in which both China and Yugoslavia are interested.

According to unofficial information, the total value of Yugoslav-Chinese trade in 1986 amounted to roughly 200 million dollars, equalling that of the previous year.

Wang stated his conviction that the planned twofold increase in trade will be realized despite last year's stagnation, and supported this claim by the fact that both countries have envisaged a number of measures for boosting trade and industrial cooperation. He cited as especially positive the measures taken by Yugoslavia for decreasing the imbalance in trade between the two countries, by increasing imports from China and encouraging barter deals.

The Chinese deputy minister stated that barter deals, payment in convertible currencies, re-exports and industrial cooperating are conditions for achieving over 400 million dollars' worth of trade.

Conditions for industrial and technical cooperation between Yugoslavia and China were prepared in 1986 and initial results are expected this year, Wang said.

The two countries have prepared a list of 64 projects for industrial cooperation in 1987 -- 16 projects on joint production, 39 on Yugoslav exports of equipment technology and goods, and 9 on Chinese exports of equipment, technology and goods.

Wang described the inclusion of the 9 projects in the list as "new progress in expanding cooperation" between the two countries.



I. 9 Jan 87

PRC INTERNATIONAL AFFAIRS  
MIDDLE EAST & AFRICA

11

CPC CENTRAL COMMITTEE GREETES ANC ANNIVERSARY

Text of Cable

OWO71211 Beijing XINHUA Domestic Service in Chinese 0759 GMT 7 Jan 87

[Text] Beijing, 7 Jan (XINHUA) -- The CPC Central Committee today cabled the African National Congress of South Africa, greeting its 75th founding anniversary. Full text of the cable follows:

National Executive Committee of the African National Congress of South Africa:

On the occasion of the 75th founding anniversary of the African National Congress of South Africa, we wish to extend our warmest congratulations. The African National Congress of South Africa, which has a glorious tradition of struggle, is an important force in fighting the apartheid system of South Africa. During the struggle for the South African people's freedom and emancipation over the past 76 years, you have defied brutality and waged an unswerving struggle against the South African authorities. Facing a complex situation, you have continued to sum up experiences, engaged in all forms of struggle against South African racist rule, and carried them further. This has won you wide support from the vast majority of the South African people, and sympathy and support from the international community. We firmly believe that your cause is just. You will certainly destroy the apartheid system of South Africa and eventually usher in freedom and equality so long as you continue to unite all the forces which can be united, and dare and know how to struggle. The Communist Party of China and the African National Congress of South Africa enjoy a close militant friendship. We have persistently and firmly stood at your side and supported your just struggle. We should like to reiterate that the Communist Party of China will, as always, firmly support your struggle until you have won final victory.

[Signed] The Central Committee of the Communist Party of China

[Dated] 7 January 1987

Organizations' Greetings

OWO81036 Beijing XINHUA in English 0644 GMT 8 Jan 87

[Text] Beijing, January 8 (XINHUA) -- The All China Federation of Trade Unions, the federations of women and youth and the Chinese People's Association for Friendship With Foreign Countries sent greetings Wednesday to the African National Congress of South Africa (ANC) on the occasion of its 75th anniversary.

Noting That struggles by South African people and workers against apartheid and for basic human rights have won increasing world support, the trade union said that the Chinese workers will as always "resolutely support your just struggle till the final victory."

The All-China Youth Federation said that the ANC, in its long struggle against apartheid, has made major contributions to the cause of wiping out the last bastion of racism on earth. The women's federation in its message congratulated the South African women for their contributions to the struggle for justice. The friendship association praised the ANC as an important force in the anti-apartheid struggles by the South African people and pledged continued Chinese backing for the struggle.

I. 9 Jan 87

C H I N A  
PNC NATIONAL AFFAIRS

K 1

DENG CALLS FOR PURGE OF UNIVERSITY PROFESSOR

OW081139 Tokyo KYODO in English 1129 GMT 8 Jan 87

[Text] Beijing, Jan 8 KYODO -- China's senior leader Deng Xiaoping has called for the purge of a university professor as part of the means to quell the recent student movement for democracy.

Deng singled out Fang Lizhi, vice president of the University of Science and Technology, and declared that he be purged from the Communist Party.

According to details of Deng's remarks that the Beijing Bureau of KYODO NEWS SERVICE has obtained, Deng held a meeting with party leaders on December 30 against a background of student demonstrations in Shanghai and other parts of the country.

Those who attended the meeting included party General Secretary Hu Yaobang, Premier Zhao Ziyang, Politburo member Hu Qili, Li Peng, another Politburo member, and He Dongzhang, a party Central Committee member.

Deng told them to take steps to quell the student movement, but said that student demonstrations were "both bad and good."

The good part, he said, was that the demonstrations revealed "the drawbacks in our operations."

Deng said he had repeatedly told party leaders the need of what he called the "four basic principles" that called, among other things, for adherence to communism and Marxism-Leninism.

He took the party leaders present to task for not publicizing the four principles.

Deng said the student movement had spread because there had been insufficient propaganda and educational effort on the basic principles that included the absolute need for China to have Communist Party guidance and socialism.

He said further spread of the student disturbance would have an unfavorable impact on China's politics and economy. But he rejected the use of force against the students.

He said there should be no injuries to students even if police were killed in the disturbances.

Deng strongly criticized a trend of bourgeois liberalism in academic and cultural circles and mentioned Fang by name. Fang is said to have been influential in leading students to take action.

"He should not be told to leave the party but be purged," Deng said.

Deng also said that Wang Ruowang, a prominent critic and writer, is "conceited" and added that "I have been saying that he should be told to leave the party."

In another development, Hu Qili was reported to have touched on the student movement at a recent party meeting in Beijing and said that the party Central Committee is united and that there is no internal conflict.

He reportedly said that there is no faction similar to the gang of four in the party Central Committee in the past.

#### PRC LEGAL EXPERTS OPPOSE BOURGEOIS LIBERALIZATION

OWO711111 Beijing XINHUA Domestic Service in Chinese 1505 GMT 6 Jan 87

[Text] Beijing, 6 Jan (XINHUA) — Experts, scholars, and celebrities from the capital's legal circles attended a forum today to discuss street demonstrations by a handful of students in some cities. They emphatically pointed out: Anyone who exercises his democratic rights must conduct himself within the limits of the Constitution and other laws. In developing socialist democracy and perfecting the socialist legal system, it is imperative to proceed from reality in China, uphold the four cardinal principles, and unequivocally oppose bourgeois liberalization.

The Four Cardinal Principles Are the Common Political Foundations for the Chinese People of All Nationalities To Advance in Unity [subhead]

Zhu Qiwu, professor of the China University of Political Science and Law, said: Demonstration is a democratic right bestowed by the Constitution on citizens. However, in the provisions for this democratic right, the Constitution also stipulates that the exercise by citizens of their freedom and rights may not infringe on the interests of the state, of society, and of the collective, or upon the lawful freedom and rights of other citizens, and that citizens must abide by the Constitution and other laws. Recently, a few people incited students to stage street demonstrations and negate the party's leadership and the four cardinal principles, under the pretext of demanding democracy and freedom, thus contradicting the vital interests and common aspirations of the people across the country. Young students should clearly realize that the four cardinal principles are the common political foundations for the Chinese people of all nationalities to advance in unity, as well as the basic guarantee for the smooth progress of the socialist modernization program. Democracy must be exercised under the premise of upholding the four cardinal principles and according to the laws.

Li Peichuan, deputy director of the State Council's Legislation Bureau, said: The four cardinal principles have scientifically summarized the experience of the Chinese people in their protracted revolutionary struggle. Without them, there would be no guarantee for the Chinese people's democratic rights, and it would be impossible to smoothly carry out reform, open to the outside world, and accomplish the four modernizations drive. We advocate unity between cause and effect, and our words and conduct must be conducive to the national stability, social progress, economic development, and improvement of the people's livelihood. He added that the students' street demonstrations are the results of some comrades' equivocal and soft attitude to the widespread ideological trend of bourgeois liberalization, which was not duly criticized over recent years. It merits much food for thought that the schools have slackened instruction on ideals, Marxism-Leninism, and our party's glorious history. We should intensify the teaching of Marxist theory and other political and ideological education.



# Socialist Democracy Is the Most Extensive Democracy for the People in the History of Mankind [subhead]

Experts and scholars pointed out at the forum: By demanding "democracy" and "freedom" in their street demonstrations, the students failed to grasp the real concepts of these concepts, which they still misunderstand. They regard Western democracy, which protects bourgeois interests, as a flower, while failing to treasure socialism, which has been won by the Chinese people through bloody sacrifice. Professor Gao Mingxuan of the Law Department of the China People's University said that democracy has always had a class character and been linked to the political system. Socialist democracy is far superior to the bourgeois version, and is the most extensive democracy for the people in the history of mankind. It is that enjoyed by the working people of all nationalities. It would be very difficult for capitalist countries to exercise democracy under centralized guidance and impose centralism on a democratic basis.

Zhu Jianming, vice president of the China Law Society, said: To build a highly socialist democracy is our party's basic policy and fighting goal. Since the 3d Plenary Session of the 11th CPC Central Committee, the party and the state have adopted a series of effective and practical measures to accelerate the development of socialist democracy and the legal system. After citing a number of concrete examples, he said that the broad masses of people realize that now is the best time in Chinese history, in which we are witnessing the fastest development of democracy.

Reviewing the development of democracy in modern Chinese history, Professor of Law Zhang Jinfan said: History has testified to the fact that both constitutional monarchy and the bourgeois republican system are unsuitable for, and encountered failure in, China, and that only socialist democracy conforms with reality in China.

He Qizhi, a legal expert for the Ministry of Foreign Affairs, said: Democracy and freedom, as a basic right for citizens, is never absolute. Unrestricted democracy and freedom basically does not exist. Some of our students, who stress freedom without discipline, and rights without obligations, can only bring about confusion.

Gan Jihua, vice president of the China University of Political Science and Law, said: Development of socialist democracy must be closely coordinated with improvement in the socialist legal system. The relationship between democracy and the legal system is one of dialectical unity, i.e., democracy is the foundation for law, and legislation is the guarantee for democracy. Any expression of individual "freedom" bypassing the limits of law, such as the "great democracy" of the "Cultural Revolution," can only be regarded as an act detrimental to socialist democracy and social stability and unity.

## Beijing Municipality's Several Provisional Regulations Governing Demonstrations Are the Statutes Conforming to the Constitution and Protecting the People's Democratic Rights [subhead]

Zhang Shangzhuo, member of the Standing Council of the China Law Society, said: The promulgation of the provisional regulations governing demonstrations, which were formulated by the Beijing Municipal People's Congress Committee, marks an important step to institutionalize and legalize socialist democracy in China. While specifically upholding Chinese citizens' democratic right to stage demonstrations entitled by the Constitution, these regulations have provided various concrete rules for staging authorized demonstrations by many citizens, including patriotic students, who are not yet used to exercising the democratic right of authorized demonstrations, according to Article 51 of the Constitution. The regulations have also specified the legal liabilities of a few people with ulterior motives, who attempt to seize an opportunity to disrupt public order or to commit the crime of opposing the Constitution and the four cardinal principles.

Zhou Naxin, member of the Standing Council of the National Lawyers' Association, said: Beijing Municipality's provisional regulations are the statutes safeguarding the dignity of the Constitution and protecting citizens' exercising their democratic rights. Many countries and cities in the world have similar regulations governing demonstrations. Wang Shuwen, director of the Law Institute of the Chinese Academy of Social Science, said: According to Article 100 of the Constitution, "the people's congresses of provinces and municipalities directly under the Central Government, and their standing committees, may adopt legal regulations which must not contravene the Constitution, the statutes, and the administrative rules and regulations, and they shall report such local regulations to the NPC Standing Committee for the record." Therefore, the Beijing Municipal People's Congress Standing Committee is entitled to formulate provisional regulations, which are local legal regulations. They play an important role in safeguarding the dignity of the Constitution and ensuring stability and modernization of the capital.

Intensify Education About the Legal System, Enhance Legal Concepts Among Students and People Across the Country, and Mete Out Legal Punishment for the Few Bad Elements [subhead]

Zhang Youyu, vice chairman of the NPC Law Committee and honorary president of the China Law Society, said: After the promulgation of Beijing Municipality's provisional regulations, a few students continued to disobey the law, thus showing their lack of legal knowledge and concept. Therefore, it is necessary to intensify education in the legal system, especially among university students, in order to enhance legal concepts among students and ordinary people across the country. Only by fostering a legal concept can the people study legal knowledge and abide by the Constitution and other laws more conscientiously.

Zhang Hongsheng, a professor of the Law Department of Beijing University, said: Recently, the school slackened instruction on political theory. I feel a compunction to say that political theory courses were not conducted in a clear-cut and justifiable manner, and some were even omitted, thus causing the students' failure to understand key points. Currently, it is necessary to intensify political and legal education among students, so that they can live up to the expectations of the party and people. Moreover, we should take tough action to punish criminal offenders according to law. This is the only way to better educate the majority.

The forum was sponsored by the Justice Ministry. Speaking at the close, Justice Minister Zou Yu said: It is necessary to step up legal education in the light of reality, and with a clear objective in mind. Currently, it is necessary to concentrate on the teaching of the Constitution in increasing citizens' awareness to correctly understand the relationship of dialectical unity between socialist democracy and the legal system, freedom and discipline, democracy and centralism, and between rights and obligations. It is necessary to stress the people's democratic dictatorship, that is, ensuring ample democracy for the people, while exercising dictatorship over the enemy, to more effectively safeguard political stability and unity.

#### CPPCC PAPER OPPOSES BOURGEOIS LIBERALIZATION

OW090546 Beijing Domestic Service in Mandarin 2230 GMT 8 Jan 87

[Report on RENMIN ZHENGXIE BAO (PEOPLE'S POLITICAL CONSULTATION NEWS) 9 January commentator's article: "Take a Clear-Cut Stance in Upholding the Four Cardinal Principles"]

[Text] The article points out: The Chinese People's Political Consultative Conference is a united front organization.



It broadly represents all democratic parties, people's organizations, democratic personages with no party affiliation, and people from other circles. It has learned from personal experience that the situation of stability and unity has indeed been hard-won.

The article says: A handful of people with ulterior motives are now attempting to undermine the political stability and unity by negating the four cardinal principles and advocating slogans about bourgeois liberalization. They have confused the people's minds, created chaos, and disrupted production and construction order and the life of other people. People's political consultative organizations and their members disapprove of such acts by a handful of people.

The article says: Past experience, if not forgotten, is a guide for the future. History has taught us a lesson that anarchism is the archenemy of national stability and unity and that bourgeois liberalization has a corrosive influence on socialist modernization. We should by no means let it spread unchecked.

#### GUANGMING RIBAO ON SOCIAL PRACTICE FOR STUDENTS

HK090651 Beijing GUANGMING RIBAO in Chinese 28 Dec 86 p 1

[Commentator's article: "Social Practice -- The Way for Contemporary College Students To Become Talented People"]

[Text] A student is still in the process of preparing for life. As a student, he will master the capabilities of knowing and changing the world through study and will fully prepare his thinking, knowledge, ability, and body to work for the benefit of society, to serve the people, and to make contributions to the motherland in the future.

Whether college students can become the elite in society depends to a great degree on whether they can seriously and diligently study at school. Only if students diligently study, maintain a firm and correct political orientation, systematically master scientific and cultural knowledge, accumulate practical work experience, and cultivate a fine work style of realism will they be able to grow into useful people with talent for the cause of modernization.

There are two important ways to study: One is to attend lectures and read books, and the other is to participate in social practice. Both aspects are indispensable. In recent years, college students have all had a great interest in reading books and a thirst for knowledge. This is valuable. The absurd days in which students did not study and took pride in handing in blank exam papers have gone forever. However, reading books is just a means of seeking scientific and cultural knowledge. To really grasp full knowledge and become really competent in construction, they should participate in social practice. Only by applying the knowledge learned from books can they enhance their abilities and continuously increase and perfect their knowledge.

Society is the big classroom in a person's life. It is not only more spacious than school classrooms, but is also richer in content. The experience of a college student is limited to the road from the door of his house to the gate of the school, and he knows little about society. This is the students' weak point. By participating in social practice, they will learn many fresh things that they cannot learn from books and school classrooms. In the last 2 years, many college students have done field work in or spent their school holidays in factories, rural villages, and army units to make social investigations. [paragraph continues]

They have provided technical consulting services for factories and villages, helped transform technology, developed new products, and gave intelligence and technology assistance to poor areas. In the process of such social practice, they not only made contributions to the modernization cause, but also made progress in their own growth. Such progress is mainly reflected in the fact that they have gained a deeper understanding of the feelings of the workers, peasants, and soldiers and can think and treat things more realistically and in an all-round way. Through social practice, many college students have realized that the policies of reform and opening up since the third plenary session have indeed brought vigor to our society and brought benefit to the people, and, therefore, they have full confidence in the country's future. At the same time, they have also seen many actual difficulties in our country's advances and understand that reform is an arduous and complicated cause, that it is an evolutionary process that cannot be pushed too hastily and cannot be expected to succeed on a short time, and that reform needs a stable social environment so that all people can work with one heart and one mind and make joint efforts to make advances. Nothing can be accomplished without making painstaking efforts or doing down-to-earth work. It is merely an idle dream to hope to realize the ideal overnight. In short, through social practice, many college students have realized that only by linking the enthusiasm for reform with a scientific and realistic attitude can they really handle things successfully. This realistic attitude and scientific spirit will help students approach their studies correctly and establish a correct outlook on the world and on human life, and will produce a positive influence on their lives after graduation.

Through social practice, many college students have produced good socioeconomic results in applying their knowledge to production and construction, and their work has been praised and appreciated by the public. This has made their lives more meaningful and more interesting. A person is certainly happy when he sees that his wisdom and knowledge can be used in social practice and become fruitful. Only at this time can he really realize the value and true meaning of human life. The value of knowledge and man's life is only realized in the making of contributions to the cause of the motherland and the people through social practice.

"A giant tree will not grow on the top of a small hill, and a huge pearl will not be produced on a muddy beach." Only by participating in broad social practice while diligently studying from books can contemporary college students become talented people.

#### BO YIBO VIEWS VILLAGE-LEVEL PARTY RECTIFICATION

OWO31325 Beijing XINHUA Domestic Service in Chinese 0847 GMT 29 Dec 87

[Text] Beijing, 29 Dec (XINHUA) -- A XINHUA reporter has just learned from the General Office of the Central Commission for Guiding Party Rectification that Bo Yibo, executive vice chairman of the Central Commission for Guiding Party Rectification, recently made public some important view on how to understand and grasp correctly the key points in village-level party rectification. He said: In the course of carrying out village-level party rectification, the central authorities and the Central Commission for Guiding Party Rectification must perform the task of tackling the important issues well. I have repeatedly and clearly discussed this. Various localities must follow the instructions in doing their work. They are not allowed to go their own way. The aim of paying attention to important issues is to fulfill the tasks for party rectification in an overall manner. Right now, the general situation in conducting party rectification at the village level in various localities is good. Many localities have generally paid attention to helping party members foster and boost their concept of commodity production and raise their awareness and whip up their enthusiasm in leading the masses to develop rural commodity production in the course of conducting party rectification.

This is a fine phenomenon. We should continue to carry out our work in this regard. However, we must also clearly point out that to educate members to foster and strengthen their concept in the development of commodity economy is merely an important task in unifying all ideas and further helping party members correctly understand the party's various rural policies to carry out reforms and develop the economy. It cannot be made to represent all the tasks. We must not use it as a substitute for all the tasks or neglect other issues for this task alone. Still less should we regard it as the sole or central task for conducting village-level party rectification. If we do that, we are not following the instructions of the Central Commission for Guiding Party Rectification. None of this is conducive to the overall fulfillment of the tasks in conducting village-level party rectification. We must remind the party committees in various provinces, prefectures, counties, and townships of this point. In dealing with those places where this phenomenon has already appeared, we should offer explanations and make corrections in a timely way. Bo Yibo made this remark after hearing the report on an investigation into the progress of the party rectification drive at the village level submitted by the General Office of the Central Commission for Guiding Party Rectification.

About 1 month ago, the General Office of the Central Committee for Guiding Party Rectification sent out some investigation groups to rural areas to investigate the progress of village-level party rectification in various localities. In the course of carrying out these investigations, they found some issues that merit attention. Many places put too much stress on educating party members in fostering their concept of a commodity economy. These places considered that, once the concept of commodity economy was fostered among party members and ways and means for developing commodity production were found, the party rectification was accomplished and new vigor and characteristics would be instilled into the party, and therefore, they had carried out a "new style party rectification." However, they have paid little attention to correcting the serious unlawful misdeeds of party members and cadres, such as the practice of taking advantage of their positions and seek private gain, and to further reorganizing and strengthening leading bodies. Some of the localities have totally neglected such important issues. They push them aside without showing any interest at all. Many letters sent to the General Office of the Central Commission for Guiding Party Rectification by the rural masses inside and outside the party have also reflected problems in this regard. Some people express doubt in their letters. They believe that this practice shows a lack of understanding about the tasks and requirements for rural party rectification.

Bo Yibo believes that the issue revealed by the Central Commission for Guiding Party Rectification and reflected by the letters from the masses is quite important. He pointed out: On the basis of the four basic tasks assigned by the party Central Committee and in close connection with the actual situation among rural party organizations and party members, the Central Commission for Guiding Party Rectification issued on 24 November 1985 a "Circular on Rural Party Rectification" in which it clearly put forward the following four requirements:

1. Strive to help party members deepen their understanding of the party's fundamental aim.
2. Correctly understand the party's various policies in carrying out reforms and developing the economy in rural areas.
3. Severely deal with the handful of party members who have committed severe mistakes.
4. Resolutely strengthen the building of leading bodies.



The aforementioned four requirements are also the key issues that we must conscientiously tackle in the course of conducting rural party rectification. They also represent the four basic tasks. At the meeting held on 22 March 1986 to hear a report submitted by the General Office of the Central Commission for Guiding Party Rectification on rural party rectification, the leading comrades of the central authorities such as Hu Yaobang, general secretary of the CPC Central Committee and chairman of the Central Commission for Guiding Party Rectification, when discussing solutions to the key issues, particularly stressed the necessity of earnestly fulfilling the four demands put forward in the "circular." At the same time, they also emphatically pointed out that it is necessary to seriously investigate and handle problems involving district, township, and village party members, party member-cadres in particular, who take advantage of their positions to seek personal gain or seriously violate the law and discipline. If we pay full attention to this important issue, we will have grasped the key issues in conducting rural party rectification.

At the 12th Plenary Session of the Central Commission for Guiding Party Rectification, several village-level party rectification tasks that must be fulfilled were once again stressed. The first task calls for strictly handling persons and incidents that have seriously infringed on the masses' interests; the second one deals with strengthening education (including education about the party's aims, ideals, and discipline as well as education about the rural policy) on how to be a qualified party member; the third stresses readjusting and improving the village-level leading bodies. These issues are entirely identical to the four requirements proposed in the circular on the strategy for rural party rectification previously mentioned. This shows that since the very beginning of rural party rectification to the present, the main tasks and major requirements of rural party rectification proposed by the party Central Committee and the Central Commission for Guiding Party Rectification are consistent with each other. Why have we repeatedly stressed the three major tasks in rural party rectification? This is because after a great deal of investigation and study, it has been found that these tasks can effectively deal with real problems existing in the rural party organs and among the rural party member contingent of the whole nation. They are related and mutually complementary to one another. Only by earnestly fulfilling these tasks can we accomplish rural party rectification in a comprehensive way and achieve the desired results. This is true not only for district and township-level party rectification, but also for village-level party rectification. Of course, in fulfilling these important tasks, the various localities can and should have local emphases according to their own local conditions. Regarding the question of local emphases, both the party Central Committee and the Central Commission for Guiding Party Rectification have repeatedly stressed them in the past. However, by local emphases, we do not mean putting particular stress on one task while neglecting the other tasks. I think the reason for this is very simple and clear and needs no explanation.

Bo Yibo continued: In carrying out education among party members during rural party rectification, if we fail first of all to educate the party members about the party's aims, ideals, and discipline; if we do not strive to help them firmly establish the concept of wholeheartedly serving the people and the lofty ideal of struggling for communism all their lives, while strengthening their concept of abiding by party discipline and the law; and if we do not strive to help them understand that the party's various rural policies and tasks are aimed at promoting the socialist cause and bringing prosperity to everyone, then their faith in developing the commodity economy will be very shallow. There is also the danger that in the course of developing the commodity economy, there will be unhealthy practices and fraud. (Neither the idea that embracing the concept of a commodity economy means embracing an ideal and treating the two on an equal footing, nor the concept that without a commodity economy, ideals and faith are only empty words is well founded in theory and practice. Both are unscientific and incorrect.)



Similarly, in the course of party rectification at the village level, without effectively dealing with those party member-cadres and party members who take advantage of their positions to seek personal gain or seriously violate the law and discipline -- i.e., dealing with the problems that have aroused the utmost concern and strong criticism of the masses in order to safeguard the masses' interests -- and without further readjusting and improving leading bodies by striving to build a leading nucleus that truly upholds the four cardinal principles, has a strong party spirit, good work style, and pioneering and innovative ideas, and can actively lead the masses to become better off through diligent labor, it is impossible for rural party organizations to enhance their prestige among the masses of peasants, strengthen the party's fighting spirit, and achieve a basic improvement in the work style of grass-roots party organizations. Thus it creates additional difficulties and talk of leading the masses in developing rural commodity production, revitalizing the rural economy, and promoting the building of two civilizations in the countryside remains empty. In my view, this is not an abstruse truth, but a plain one. Here, I would like to say a few more words about the problems of serious power abuse and violations of the law and discipline. It should be pointed out that a major defect currently existing in a considerable number of districts and units (not only in rural areas but also in some leading party and government organs at and above the rural level, in enterprises, and in institutions) is that they either assume a lenient attitude toward the problems -- investigating them without meting out punishment -- or basically ignore them. Have we not stressed, day after day, the necessity of running the party in a strict manner? The strict manner here calls for strict ideology, work style, discipline, and organization. Why are the rural party organizations incapable of taking stern action to deal with the problems? Are they afraid and unwilling to take action? There are probably various reasons. Whatever they may be, it is necessary to quickly overcome such a weakness. If rural party organizations remain unconcerned with improper activities, how can they hold themselves responsible to the party and the people? They will disappoint the people, and it will not be necessary to carry out party rectification. If they are obstructed by the connection networks, factionalism, or the fear of hurting each other's sensibilities, it is imperative to get rid of the connection networks and factionalism and do away with the idea of "being a good old boy." Are there people who shield wrongdoers? It is entirely justifiable to remove such people from leading posts. Are the rural party organizations afraid of committing "leftist" mistakes by dealing with such persons and things? It is the party's consistent principled policy to eliminate all negative phenomena inside the party. This has nothing at all to do with "leftist" practices. Are they afraid that efforts to solve the problems will adversely affect revitalization of the economy in the rural areas? On the contrary, the efforts can only ensure and stimulate its wholesome development. In brief, it is necessary to eliminate all unhealthy tendencies and unlawful activities in an indomitable spirit of serving the party and people wholeheartedly. If rural party organizations fail to do so, but make endless concessions and are excessively tolerant and lenient instead, the consequences will be dreadful to contemplate. It is tantamount to doing a disservice, first to the people, second to the cause of the party, and third to the people who have committed serious mistakes themselves, depriving them of an opportunity to redeem themselves.

In conclusion, Bo Yibo discussed the development of commodity production in the rural areas. He explicitly pointed out: The aim of what I have just said, that is, stressing once again the importance of complying with the instructions of the party Central Committee and the Central Commission for Guiding Party Rectification in earnestly solving several key issues in party rectification at the village level to comprehensively accomplish rural party rectification, is to guarantee and promote the rural economic reforms, the development of the rural commodity economy, and the building of two civilizations in the countryside.

The key and the only way to achieve a marked increase in social productive forces and revitalize the economy in rural areas, enabling the masses of peasants to become better off as quickly as possible, is to vigorously develop commodity production through reform. Only when the commodity economy is really enlivened can we instill vigor into rural construction as a whole and lay an ample material foundation for an advanced culture and ideology and comprehensive social progress in the countryside. Therefore, in the course of village-level party rectification, it is necessary to educate party members and increase their awareness of the concept of a commodity economy, arousing their enthusiasm and initiative in developing commodity production. As I have said, rural party organizations should exert great efforts and lay solid groundwork in this aspect during party rectification. Moreover, I would like to point out that it is not an easy task to increase party members' awareness of the concept of commodity economy and promote commodity production in the rural areas, and that there are many ideological and practical problems that need to be solved. First, it is necessary to educate and help party members get rid of various outdated ideas that hinder the development of a commodity economy, foremost among them the ideological influence of the feudal society and the natural economy left over from history that emphasizes agriculture and belittles commerce. At the same time, it is necessary to oppose and resist the capitalist ideological influence that puts money above all else and seeks personal gain at the expense of others. Without removing such ideological obstacles, it is impossible to foster a real and correct concept of commodity. Second, it is necessary to educate and help party members to correctly understand the interrelations between agriculture, industry, sideline production, commerce, and trade, and make them clearly realize that there will be "no stability without agriculture," "no prosperity without industry," and "no liveliness without commerce," and "there will only be confusion without grain." They must be able to make overall and coordinated arrangements for promoting industry and commerce while sparing no efforts to develop agriculture, grain production in particular. Only by supplementing them with one another without overemphasizing any of them can we achieve comprehensive development of the commodity economy in rural areas. Third, it is necessary to educate and help party members to display the spirit of self-reliance. They should understand that in developing commodity production in the rural areas, it is necessary for the state to provide some loans and other forms of assistance, but more importantly, for rural areas to depend on themselves in raising funds, exploring production sources, and making the best use of indigenous resources, technology, and other advantages to blaze the path for developing a commodity economy with local characteristics. Fourth, it is necessary to educate and help party members to familiarize themselves thoroughly with the commodity economy that we are promoting. It is a socialist planned commodity economy, and they should always bear in mind the socialist orientation. All localities must accept state guidance in planning macroeconomic activities and do things strictly according to policies and regulations of the party and the government. They should conscientiously observe the law and discipline and continuously strengthen the ability to resist various unhealthy tendencies and corrosive influences in order to ensure wholesome development of the commodity economy in rural areas.

#### PLANNING OFFICIAL ON ECONOMIC, SOCIAL DEVELOPMENT

HK081432 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 1, 5 Jan 87 pp 8-9

[Article by LIAOWANG reporter: "Liu Suinian, Vice Minister in Charge of the State Planning Commission, Talks About National Economic and Social Development Plans in 1987"]

[Excerpts] Question: What is our basic idea about the state plan for 1987? Where shall we put the stress?

Answer: On the whole, the economic situation was good in 1986. Despite serious natural disasters in quite a few areas, grain output increased over the previous year and the growth rate of the total agricultural output value overfulfilled the target. Industrial production switched from excessive growth in 1985 to normal development and fulfilled the target of growth rate of 8 percent. The trend of excessive increases in fixed assets investment and consumer funds has been curbed to a extent. The contradiction between general social demand and general social supply has been eased. Of course we still face many problems. The main problems are: General social demand is on the large side; economic results and the financial balance fail to fulfill the targets; and the product mix cannot meet the change in spending demands.

For the above reasons, the general task for the national economic and social plans in 1987 is to strive for a basic balance between general social demand and general social supply. The stress of our work should be laid on increasing and improving social supply; on further invigorating large and medium-sized industrial enterprises; on vigorously developing agricultural production; on maintaining a reasonable growth rate in the national economy; on greatly improving economic results in production, construction, and circulation; on easing the contradiction between the product mix and the structure of social needs; on maintaining a stable domestic market; and on striving to achieve new results in exports and foreign exchange income. Meanwhile, we must continue to control general social demand, particularly the size of fixed assets investment; vigorously readjust the investment structure; ensure priority construction projects; and promote technological transformation. On the basis of increasing production and improving economic results, we must make efforts to continue to improve people's livelihood. [passage omitted]

Question: Developing agricultural production, particularly grain production, is a focal point in this year's national economic plan. What specific measures will the state adopt toward this?

Answer: In addition to persevering in rural reforms and further unleashing peasants' initiative, the State Council has decided on three important measures, namely: Reducing tasks for purchasing grain by contracts, increasing supplies of chemical fertilizer and diesel, and increasing agricultural investment. The budgetary investment directly made by the state in agriculture, forestry, and water conservancy projects this year will increase largely over 1986, mainly in key projects of harnessing large rivers. All local financial authorities must increase their investment in capital construction of agriculture, forestry, and water conservancy projects.

Question: What problems should be urgently solved in this year's industrial production?

Answer: The striking contradiction in the current industrial production is that the product mix is not suited to social demand. On the one hand, the supply of new and fine-quality products needed by society falls short of demand; on the other, old-fashioned and inferior products are being turned out in large quantity. This year we must actively readjust the product mix, with stress on the readjustment of the mix of light, textile, mechanical, and electrical products. [passage omitted]

Question: Some improvements have been made in maintaining a balance in the income and expenses of foreign exchange in 1986. How can we ensure a balance in income and expenses of foreign exchange this year?

Answer: This year we shall continue to adopt effective policies and measures, unleash the initiative of all parts for expanding export business, and earn more foreign exchange.



Meanwhile, we must continue to strictly control imports; reduce expenses in foreign exchange; actively develop tourism and foreign labor service cooperation to increase foreign exchange income from other fields than trade; and strive to maintain a basic balance in income and expenses of foreign exchange. In order to arouse people's enthusiasm for developing export business and earning foreign exchange, this year the state will reform the foreign exchange system, relax its control over all localities and departments in using foreign exchange quotas, and basically cash in the same year the foreign exchange retained. In the meantime, it will reform the import system accordingly and change the previous method of the central authorities importing important goods in a unified way and then assigning part of them to localities and departments to the new method of localities and departments using the retained foreign exchange to import some goods. [passage omitted]

WANG MENG DISCUSSES FIVE 1987 CULTURAL TASKS

HK071352 Hong Kong TA KUNG PAO in Chinese 6 Jan 87 p 1

["Special dispatch from Beijing" on 5 January: "Wang Meng on Five Tasks in Cultural Work This Year"]

[Text] Minister of Culture Wang Meng said: A stable, democratic, and harmonious social cultural environment is taking shape and making continuous efforts to safeguard this social cultural environment and taking solid steps in reforms are the main tasks for cultural work in 1987.

Wang Meng made these remarks in an interview with a reporter from "ZHONGGUO WENHUA BAO."

Reviewing the past year, Wang Meng said that the atmosphere throughout cultural work last year was stable, democratic, harmonious, and open.

On this year's tasks, he stressed the following:

-- Conduct in-depth structural reform of artistic groups and solve in various ways the problem of operational management of performing arts groups.

-- Learn the experiences of foreign countries and localities in the country in sponsoring arts festivals. From 1987, the Ministry of Culture will hold a Chinese arts festival every 2 years. The first Chinese arts festival will be held in September 1987. It will mainly be held in Beijing. Other provinces, autonomous regions, and cities that have conditions may also hold Chinese arts festivals at the same time.

-- Promote the opening up, stability, and prosperity of cultural markets. Cultural markets must open up, develop, and be well managed. In conjunction with other departments concerned, the Ministry of Culture must formulate policies and rules on comprehensive management of cultural markets and management of business dance parties.

-- Further discuss and study the problem of the opening up and management of cultural relics markets. Within the limit of the state's policies, it is necessary to make full use of the existing cultural relics to carry out various business activities and exhibition activities of "compensating cultural relics with cultural relics."  
[paragraph continues]



It is necessary to gradually promote the sale of cultural relics inside the country and promote in a planned way the sale of cultural relics to overseas areas.

— While managing in a unified way the work of foreign cultural exchange, it is necessary to further promote foreign cultural exchange through "government, nongovernment, and commercial" channels.

He also said that after several years of investigation and study, the Ministry of Culture worked out a draft proposal in 1986 for establishing the national arts award and has submitted the proposal to the NPC Standing Committee. With the approval and under the leadership of the NPC Standing Committee, the Ministry of Culture will make good preparations in 1987 for implementing the regulations on deciding on national literature and art awards and on conferring honorary titles to literature and art workers.

#### GUANGMING RIBAO ON POLITICAL STRUCTURAL REFORM

HK241253 Beijing GUANGMING RIBAO in Chinese 15 Dec 86 p 3

[Article by Ye Xiaowen (0673 1420 2429): "Attach Importance to the Study of Vertical Development and Horizontal Structure in Political Structural Reform"]

[Text] If we treat the reform of the political structure, which will soon be greatly promoted, as a systematic social project, then we must pay great attention to its "early-day preparations" at present. In other words, we must really treat it as a systematic social project and must place it in the vertical development in order to study the strategy and plans and place it in the horizontal structure in order to work out relevant measures.

Since the 3d Plenary Session of the 11th CPC Central Committee, motivated and required by the reform of the economic structure, we have already made some important steps in reform of China's political structure. In his speech entitled "Reform of the Party and State Leadership System" which was delivered at the enlarged meeting of the Political Bureau of the CPC Central Committee in August 1980, Comrade Deng Xiaoping made a brilliant exposition on the necessity, tasks, policies, principles, and measures of this reform, thus providing a program for China's reform of the political structure. In practice, the 5th Plenary Session of the 11th CPC Central Committee decided to establish the Secretariat and gradually to abolish the lifelong tenure of office of party and state leaders, which actually exists, and replace it with the system of limited tenure. The Fifth Session of the Fifth NPC adopted a new Constitution, urging division of work between party and government. The inner-party democratic life has been enhanced and the discipline inspection and advisory committees have been established at various levels. The leading bodies at various levels have been reorganized in accordance with the principle of being younger, more revolutionary, better educated, and more professionally competent, and a number of young and middle-aged cadres have been promoted. The Army has been streamlined and reorganized. The system of plant director (or manager) assuming full responsibility has been adopted by the state-owned enterprises. In the countryside, people's communes have been abolished and replaced by townships. More than 280 laws and regulations have been promulgated. In economic management, localities have been granted more decisionmaking power, and in administrative affairs, their power has also been extended. Efforts have been made to solve the problems concerning relations between centralization and decentralization of power. All this shows that reform of the political structure is a sudden event. As a matter of fact, over the past 7 years, we have already carried out parts of the reform or have made some preparations for the overall reform.

Reform of the economic structure compels us to place reform of the political structure on the agenda and requires us to make overall early stage preparations more actively, conscientiously, and definitely for developing this systematic social project on the basis of the reforms and preparations we have actually made over the past 7 years and to study the strategic plans in the vertical development for this development. To put it concretely, this means that we must study both the early stage and follow-up policies (including intermediate and later stage policies) for reform of the political structure and must study new policies to revise or replace the early stage policies according to the feed back information acquired in implementing the early stage policies. In this study, we must not hastily put forth some immature plans. An urgent matter for the present is to turn the resolution of the central authorities, which are determined to promote the reform of the political structure, into the resolution of the whole party and the people throughout the country, so that this reform can become a conscious action of the whole party and whole people and can be changed from partial readjustment into a systematic reform and so that it can be changed from a passive practice pushed by the economic reform into an active practice under the guidance of theory.

Conscientiously studying the strategic plans for reform of the political structure in the vertical development is absolutely necessary when we really regard this reform as a systematic social project and want to carry it out conscientiously and strictly. Today, when we emphasize democratization and scientific ways in making policy decisions, we first refer to the democratization and scientific ways in making policy decisions for reform of the political structure. Thus, we must begin to set up a series of systems, such as assistance, consultation, appraisal, supervision, and feedback systems, for the making of policy decisions. This is an essential condition for the success of reform of the political structure.

The objective of reform of the political structure is further to establish a highly democratic and effective socialist political structure with a perfect legal system. It includes the following three aspects: 1) Having more people participate in democratic activities, which symbolizes the development of political modernization in a wider range; 2) having a perfect and harmonious supervision mechanism, which symbolizes the development of political modernization in depth; and 3) having a highly effective administrative organ, which is the result of the above two and a direct product of reform of the political structure.

When we proceed from the horizontal structure of this objective and try to work out appropriate measures for reform of the political structure, we must pay attention to the following matters. First, it is necessary to make the overall reform and partial reforms coordinate with each other. Judging from the horizontal structure of the objective, the work aiming at making more people participate in democratic activities, which symbolizes the development of political modernization in a wider range, can be started from the parts and then be extended to the whole. It will better coordinate with our work to make early stage preparations for the political structural reform. Second, in order to perfect the harmonizing and supervising mechanism, we need to proceed from the structure and carry out complete reforms in various parts. We need to start from the macroeconomic field and the whole or more occasions. Thus, the partial reforms should be subordinate to the unified and overall policy decisions of the central authorities, so that greater progress can be made in the future after reform is further carried out in depth. Third, the raising of efficiency, which is a result of these efforts, is both the terminal and starting points and both the result and motive of the reform. Therefore, we should make positive efforts in this respect beginning from the period of making early stage preparations. Of course, the three aspects cannot be separated. They supplement and promote one another.

In this article, we are just talking about the focus of our work to make early stage preparations. What particularly merits our attention is that we must proceed from the real situation of the economic and social development in various areas in studying concrete measures for reform of the political structure there and must prevent the practice of "imposing uniformity" on various areas and copying others' experiences mechanically.

In essence, reform of the political structure is a self-perfection of the socialist system. Therefore, it should take the form of advancing step by step rather than making sudden changes, because it is not qualitative change and the process of advance cannot be interrupted. Should there be any qualitative changes, they are just some partial changes in the course of quantitative change. They are not changes in the root nature of the socialist system.

Since the reform should advance step by step, it cannot be separated from the work in the previous and coming stages. We must overcome erroneous ideas and concepts such as "launch a mass movement, or do nothing at all." We must be good at harmonizing relations between partial and overall work and be good at bringing our current work into the orbit and range of making early stage preparations for reform of the political structure.

#### REGULATIONS ISSUED GOVERNING FOREIGNERS' EXIT, ENTRY

OW070707 Beijing XINHUA Domestic Service in Chinese 0630 GMT 26 Dec 87

[Text] Beijing, 26 Dec (XINHUA) -- Detailed Regulations of the People's Republic of China for Enforcing the Law Governing the Exit and Entry of Foreign Nationals.

(Approved by the State Council on 3 December 1986)

(Promulgated by the Ministry of Public Security and the Ministry of Foreign Affairs on 27 December 1986)

The following detailed regulations are formulated according to the provisions of Article 33 of the "Law of the People's Republic of China Governing Exit and Entry of Foreign Nationals" (hereinafter called "Foreign Nationals' Exit-Entry Law" for short).

#### Chapter I: Entry

Article 1: A foreign national is required to apply for a visa for entry at Chinese diplomatic missions, consular offices, or other agencies authorized by the Ministry of Foreign Affairs abroad.

Under the following circumstances, a foreign national who is in possession of a telegram from an authorized unit in China and an ordinary passport of countries having diplomatic relations or official trade ties with China can also apply for a visa at visa offices at various ports authorized by the Ministry of Public Security in case he urgently wants to come to China and does not have enough time to obtain a visa at the aforementioned Chinese organs overseas. He must:

1. Be invited by the Chinese side at short notice to attend trade fairs;



2. Be invited to China for bidding or official signing of economic and trade contracts;
3. Be required to contract to come to China to oversee export packaging, carry out import inspection, or carry out joint acceptance inspection;
4. Be invited by the Chinese side for equipment installation or urgent repairs;
5. Be asked by the Chinese side to come to China to settle reparations;
6. Be invited to China to provide scientific and technological consultation;
7. Be a temporary change agreed by the Chinese side to delegation and group members invited to visit China after issuance of visas;
8. Need to visit patients in critical condition or to take charge of funeral arrangements;
9. Be on direct transit and unable to leave within 24 hours on the original plane for reasons force majeure or be someone who must leave by other vehicles; or
10. Be invited but without enough time to apply for a visa at the aforementioned Chinese establishments overseas and be in possession of telegrams from designated competent departments giving consent for visa application at port administration.

Except for the above, the port visa offices must not accept visa applications.

Article 2: The port visa offices authorized by the Ministry of Public Security are set up at the following ports: Beijing, Shanghai, Tianjin, Dalian, Fuzhou, Xiamen, Xian, Guilin, Hangzhou, Kunming, Guangzhou (Baiyun Airport), Shenzhen (Luohu, Shekou), and Zhuhai (Gongbei).

Article 3: Based on their status and types of passports, foreign nations are issued either a diplomatic visa, protocol [li yu 4409 6657] visa, official visa, or ordinary visa.

Article 4: In issuing ordinary visas, the corresponding pinyin letter of the Han language shall be indicated on the visa according to the foreign national's purpose of visit to China:

1. A letter D visa shall be issued to those who come to China for residence;
2. A letter Z visa shall be issued to those who come to China to take up office or for work, and to their accompanying family members;
3. A letter X visa shall be issued to those who come to China for schooling, further studies, or training not exceeding 6 months;



4. A letter F visa shall be issued to those who are invited to China for visit, study, lecture, business, scientific and cultural exchanges, and short-term studies and fieldwork not exceeding 6 months;

5. A letter L visa shall be issued to those who come to China for sightseeing, visiting relatives, or on private business, and group visas shall be issued to tour groups of more than 9 members;

6. A letter G visa shall be issued to those who are in transit in China;

7. A letter C visa shall be issued to international train attendants, international air crew members, and international shipping sailors who are responsible for passenger, air, and shipping services, as well as to their accompanying family members.

Article 5: When applying for a visa, a foreign national must answer questions on relevant information and go through the following procedures:

1. Having a valid passport or a document which functions as a passport;
2. Filling out an application for visa and turning in a 2-inch uncovered half-length front-view photo; and
3. Showing relevant certificates which support the application for entry and exit.

Article 6: The relevant certificates mentioned in Item 3 of Article 5 of these detailed regulations denote:

1. Letter D visa applicants must have settler's status confirmation. The settler's status confirmation can be obtained by the applicants, or by their relatives in China authorized by them, from the exit and entry administrative department of the Public Security Bureau in the city or country in which they will settle;
2. Letter Z visa applicants must have a letter of appointment from the hiring organization in China or a message from an authorized organization;
3. Letter X visa applicants must have a certificate issued by the receiving organization or by the department in charge;
4. Letter F visa applicants must have a message from the inviting organization;
5. Tourists who apply for letter L visas must have a certificate issued by China's tourism department;
6. Letter G visa applicants must have valid visas for their destination countries (regions); If the applicants enjoy visa-free privilege in the destination countries (regions), they must have passenger tickets for those countries (regions); and
7. Letter C visa applicants must have relevant certificates as specified in bilateral agreements.

Foreign nationals who apply for entry visas in order to come to settle or to reside for over 1 year in China must show a health certificate issued by a medical departments designated by the government of the country of their current residence or issued by a medical department and notarized by a notary public. The health certificate remains valid for 6 months from the day of issuance.

Article 7: The following foreign nationals are prohibited from entering China:

1. Those who were deported by the Chinese Government and are still prohibited from entering China;
2. Those who are suspected of coming to carry out terrorist, violent, or subversive activities;
3. Those who are suspected of coming to engage in smuggling, narcotics trafficking, or prostitution;
4. Those who have mental illness or contagious diseases, such as leprosy, AIDS, venereal disease, and active tuberculosis;
5. Those who cannot guarantee their own financial needs in China; and
6. Those who are suspected of coming to carry out activities against our national security and interests.

Article 8: Foreign nationals on international flights do not need a visa to stop in China for less than 24 hours if they do not leave the airport. They must apply for a permit from the border inspection station if they want to leave the airport.

Article 9: When a foreign ship sailing an international route is berthed in a Chinese port, its crew members and their accompanying family members must apply for a shore pass or a lodging pass from the border inspection station if they want to come ashore or lodge ashore in the port city. They must apply for an appropriate visa from the local Public Security Bureau if they want to go to other places than the port city and have appropriate reasons to do so, or if they cannot leave China with their ship.

## Chapter II: Inspection of Exit and Entry Documents

Article 10: Upon arriving at a port, a foreign national must present a valid passport and a Chinese visa or documents to the border inspection station and fill out forms for entry and exit. He/she shall enter the country with the approval of the border inspection station stamped on those documents.

Article 11: When a foreign aircraft or vessel arrives at a Chinese port, its person in charge shall be responsible for the following:

1. The captain or an agent of the foreign aircraft or vessel must provide the border inspection station with namelists of crew members and of passengers.

2. If a person with the intention of sneaking into China is discovered aboard, he must immediately be reported upon discovery to the border inspection station and await action taken by the station.

3. As for those who are prohibited from entering China, they shall be carried away by the same carrier. As for those who are unable to leave China immediately for reasons force majeure, the person in charge of the vehicle must be responsible for their expenses of stay in and departure from China.

Article 12: The border inspection station has the right to prevent the following foreign nationals from entering or leaving China:

1. Those without a valid passport, traveling documents, or visa;
2. Those holding forged, altered, or other people's passports or traveling documents;
3. Those who refuse examination of documents; and
4. Those who are prohibited from entering or leaving China by the Ministry of Public Security or the Ministry of State Security.

Article 13: Foreign nationals who leave China shall present their valid passports or other valid documents and visas for staying in China or residence permits for inspection.

Article 14: Foreign nationals and foreign vehicles with designated ports by visa offices shall enter or leave China from those ports.

Article 15: If those foreign national mentioned in Article 12 of these detailed regulations are unable to leave immediately on the original vehicle, the border inspection station shall take necessary steps to restrict their activity and order them to leave the country on the next scheduled transport.

### Chapter III: Residence

Article 16: Foreign nationals with visas of letters D, Z, and X must obtain a residence permit or temporary residence permit for foreign nationals within 10 days upon arrival from the Public Security Bureau of the city or country of residence. The period of validity of the aforementioned residence permits is the time for stay in China allowed for the permit holder.

Residence permits for foreign nationals shall be issued to those who plan to stay in China for more than 1 year.

Temporary residence permits for foreign nationals shall be issued to those who will stay in China for less than 1 year.

Foreign nationals who hold visas with letters F, L, G, and C need no residence permits provided they stay in China for the period indicated in their visas.

Article 17: When applying for a residence permit, a foreign national must answer questions on relevant information and go through the following procedures:

1. Show his passport, visa, and relevant certificates indicating reasons for stay;
2. Fill out application forms for residence; and
3. Show a health certificate and turn in a 2-inch uncovered half-length front-view photo when applying for a residence permit for foreign nationals.

Article 18: A residence permit for foreign nationals valid from 1 to 5 years can be issued to a foreign national by the city or county Public Security Bureau for just reasons for stay.

The public security organs can issue 1-5 year long-term residence permits to those foreign nationals to who Article 14 of the "Foreign Nationals' Exit-Entry Law" applies and permanent residence permits to those with marked achievements.

Article 19: As for those who are exempt from a visa for China in accordance with an accord signed between the Chinese Government and a foreign government, they shall apply for a residence certificate according to Articles 16 and 17 of these detailed regulations after entering China, provided they need to stay in the country for over 30 days.

However, the aforesaid article does not apply to the foreign nationals categorized in Article 34 of the "Foreign Nationals' Exit-Entry Law."

Article 20: Provided a foreign national needs to stay or reside in China after his visa or residence permit expires, he must apply for an extension prior to the date of expiration.

The Chinese public health administration departments may request the public security organs to order a foreign national to leave ahead of time if he is found with any disease specified in Item 4 of Article 7 of these detailed regulations during his stay in China.

Article 21: If any information in the residence permit for a foreign national (including name, nationality, occupation or status, unit of employment, address, passport number, and number of children accompanied) changes, the permit holder must go to the Public Security Bureau of the place of resident to report the change within 10 days.

Article 22: If a holder of a residence permit for foreign nationals wants to move from the city or county of residence to another location, he must report to the Public Security Bureau of the former location of residence and to the new place within 10 days upon arrival.

Those foreign nationals who have settled in China must obtain a move-in certificate in advance from the Public Security Bureau of the place of new residence and shall make move-in registration with the certificate in accordance with the aforesaid article.

Article 23: Because of the need to protect national security, public order, or other public interests, municipal and county public security bureaus may prevent foreign nationals or foreign organs from establishing domiciles or offices in certain areas. Those who have done so must relocate to nonrestricted areas within the time limit specified in the relocation notices issued by the municipal or country public security bureaus.



Article 24: Once a year, foreign nationals residing in China must have their residence permits checked at the public security bureaus where they reside within the specified period.

Whenever necessary, a public security bureau may notify foreign nationals that they must have their residence permits checked at the exit-entry administrative department, and foreign nationals should comply within the period specified in the notification.

Article 25: Foreign nationals residing or staying in China, over 16 years of age, must carry their residence permits or passports in case they have to be checked by foreign affairs police.

Article 26: The parents, or their agents, of foreign babies born in China must, within a month of birth, bring their birth certificates to the local Public Security Bureau and have the registration formalities processed.

Article 27: If a foreign national dies in China, his family member, custodian, or agent must, within 3 days of the death, bring the death certificate to the local Public Security Bureau and have the residence permit or visa of the deceased cancelled.

If a foreign national dies an unnatural death, the relevant personnel or the finder of the body should immediately inform the Public Security Bureau.

Article 28: Competent authorities of the Chinese Government mentioned in Article 19 of the "Foreign Nationals' Exit-Entry Law" refers to the Ministry of Labor and Personnel of the People's Republic of China.

#### Chapter IV: Registration of Lodgings

Article 29: When foreign nationals seek lodgings at such enterprises or institutions as guesthouses, hotels, inns, reception centers, and schools, or government of people's organizations, or other Chinese institutions, they should register their temporary lodgings with their valid passports or residence permits. Those seeking lodgings at areas not open to foreign nationals should also show their travel permits.

Article 30: If a foreign national wants to stay at the home of a Chinese citizen living in an urban area, his host or he himself must, within 24 hours of his arrival, bring his passport and other papers, as well as his host's household registration, to the public security organ to register his temporary lodgings. If his host resides in a rural area, he or his host must, within 72 hours, report the stay to the local police precinct or household registration office.

Article 31: If a foreign national seeks lodgings at a foreign organ in China or at the home of a foreign national living in China, the organ, or the host, or the foreign visitor himself, must within 24 hours of his arrival, report to the local public security organ with his passport or residence permit and register his temporary stay.

Article 32: When a foreign national residing in China on a long-term basis leaves his own domicile and seeks a temporary stay at another location, he should report and register his stay in accordance with Articles 29, 30, and 31 of these detailed regulations.

Article 33: When a foreign national seeks temporary lodgings at a mobile home, he should report this to the local public security organ within 24 hours. An organ or individual providing the space for the foreign national's mobile home should report this to the local public security organ 24 hours ahead of time.

#### Chapter V: Travel

Article 34: When a foreign national wants to visit a city or county not open to foreign nationals, he should, before he starts his journey, apply for a travel permit at the Public Security Bureau of the city or county where he resides, and should not proceed to those places until his application has been approved. The application for a travel permit should follow these procedures:

1. Show passport or residence permit;
2. Provide the papers relevant to travel; and
3. Fill in a travel application form.

Article 35: A foreign national's travel permit is valid for a maximum of 1 year, and should not exceed the validity period of his visa or residence permit.

Article 36: If, after obtaining his travel permit, the foreign national wants to extend the period of validity, add more locations not open to foreign nationals, or increase the number of accompanying personnel, he must request an extension or the changes at the Public Security Bureau.

Article 37: Without approval, foreign nationals may not visit locations not open to him.

#### Chapter VI: Exit

Article 38: Foreign nationals must leave the country before their approved period of stay or the validity of their residence permits expires.

Article 39: Foreign nationals holding Chinese residence permits who want to leave the country temporarily and return later, before their residence permits expire, must apply for reentry visas from local public security organs prior to their departure, in accordance with relevant provisions contained in Articles 5 and 6 of these detailed regulations.

Foreign nationals holding residence permits who want to leave the country and not return, must hand in their residence permits at the border inspection stations on leaving the country.

#### Chapter VII: Penalties

Article 40: Foreign nationals found guilty of illegal entry into China are subject to a fine of 500 to 1,000 yuan each, or detention for 3 to 10 days. In addition, they may also be ordered to leave China within a prescribed time or face deportation. If their offenses are serious and criminal, they shall be investigated according to law and bear the responsibility for their crime.

Article 41: Responsible persons in the transportation industry, or their agents, who have violated stipulations in Article 11 of these detailed regulations and refuse to bear the responsibility, are subject to fines of 500 to 2,000 yuan or detention for 3 to 10 days.

Article 42: Foreign nationals who violate stipulations in Articles 16, 19, 20, 21, 22, and 23 of these detailed regulations by illegally taking up residence in China or violating regulations governing residence administration, are subject to warnings, fines of 100 to 500 yuan, or detention for 1 to 3 days. If their offenses are serious, they shall be ordered to leave the country within a certain time.

Article 43: Foreign nationals who violate stipulations in Articles 24 and 25 of these detailed regulations by failing to submit their residence permits for examination, not carrying passports or residence papers on their person, or refusing police checks of their papers, are subject to warnings or fines of 20 to 50 yuan. If their offenses are serious, they will be asked to leave the country within a certain time limit.

Article 44: Foreign nationals seeking work on their own or working at a job without approval from the PRC's Ministry of Labor and Personnel, will be suspended from their jobs. In addition, they are subject to fines of 200 to 1,000 yuan. If their offenses are serious, they will be asked to leave the country within a certain time limit.

Article 45: Sponsors of foreign nationals who violate the stipulations in Chapter IV of these detailed regulations by failing to register the foreigners' temporary lodgings or report their temporary lodging registration to public security organs, or by letting foreigners without valid papers stay in their homes, are subject to warnings or fines of 10 to 50 yuan.

Article 46: Foreign nationals who violate the stipulations of Articles 34, 36, and 37 by traveling without proper approval in areas closed to foreigners are subject to warnings or fines of 30 to 100 yuan. If their offenses are serious, they will be asked to leave the country within a certain time limit.

Article 47: Foreign nationals who forge, alter, or use other persons' visas or other such certificates, or let other people use their visas and other such documents, will have their original visas and other papers revoked. In addition, they are subject to fines of 500 to 2,000 yuan or detention for 3 to 10 days, or will be asked to leave the country within a certain time limit. If their offenses are serious or criminal, they will be investigated according to the law and bear the responsibility for their crime.

Article 48: Violations by force majeure of the "Law Governing Exit and Entry of Foreign Nationals" and these detailed regulations may be exempt from penalty.

When a foreign national is unable to pay a fine, the penalty may be changed to detention.

Article 49: Penalties, including both fines and detention, stipulated in this chapter are also applicable to persons who help foreigners gain illegal entry to, or exit from, the country or established illegal entry to, or exit from, the country or establish illegal residences or visits in the country; who privately hire foreigners without valid travel papers to travel in areas not open to foreigners.



Article 50: If a person refuses to accept a fine or detention given by a public security organ, that person may appeal to the next higher public security organ, either directly or through the original organ giving the ruling within 15 days of receipt of the notification. The next higher public security organ will then give a ruling within 3 days of receipt of the appeal. The person being given a penalty may also appeal the case to a local people's court.

Article 51: Penalties stipulated in this chapter will be executed by the public security organs.

#### Chapter VIII: Other Stipulations

Article 52: When requesting an extension or changes to a visa or other certificates, a foreign national must go through the following formalities:

1. Hand in his passport, visa, and other related documents for examination;
2. Fill out forms for extension or changes; and
3. Provide papers justifying the extension or changes to be made.

Article 53: When applying for visas and other certificates, or when requesting for extension and changes to visas, foreign nationals must pay a fee for the visas or other certificates they request in accordance with relevant regulations.

The standard charge for such fees will be set by the Ministry of Public Security and the Ministry of Foreign Affairs.

For nationals from countries which have signed a visa fee agreement with the Chinese Government, the agreement will be followed in charging visa fees.

Article 54: Children under the age of 16 sharing the same passport with and coming to China accompanied by their parents or guardians may be exempt from the procedures for visa, transit, residence, or travel.

Article 55: When a foreign national loses or damages his or her Chinese visa or other related papers, he or she should immediately report it to the local Public Security Bureau or exit and entry administration departments for reissue or replacement. If a foreign national loses his residence permit, he or she must place a lost property statement in the local government paper to declare his or her residence permit invalid.

Article 56: The Ministry of Public Security and the Ministry of Foreign Affairs will be in charge of designing the various visas, certificates, and application forms.

Article 57: These detailed regulations will come into effect on the date of promulgation.

CHEN MUHUA ON CONSTRUCTION FUNDS, BANKING REFORM

HK020845 Beijing JINGJI RIBAO in Chinese 27 Dec 86 p 1

[Article by Reports Kao Yongyi (7559 3057 3015) and Sun Yong (1327 0516): "Acquire Construction Funds (jianshe zijin 1696 6080 6327 6855) Through Reform and Rejuvenation -- An Interview With Chen Muhua, State Councillor and President of the People's Bank of China"]

[Text] People always liken finance and banking to the lifeblood of our national economy. Huge credit funds are just like "blood" flowing in a steady stream to every sector of the national economy. While exchanging views with Chen Muhua, state councillor and president of the People's Bank of China, at her office on the current and next year's financial and banking situations, we deeply felt the vigorous and forceful beat of the financial and banking pulse of China.

To those who understand the Chinese financial and banking conditions, the last phase of 1984 was a period in which the "four trades" [si hang 0934 5887] vied with one another for loans and 1985 was a year in which the money market was tight. As 1986 is coming to an end, what kind of impression has the Chinese financial and banking systems made on the people? "After making efforts for 2 years to strengthen and improve the macrocontrol of the financial and banking system, the financial and banking situation in 1986 has been as good as the whole economic situation." Chen Muhua smiled while saying these words with full confidence.

Chen Muhua said during her interview with us: regarding the supply of funds, our banks this year formed the general policy of "seeking relaxation through stability." Regarding circulating funds, our banks this year implemented the specific policy that "more loans will be extended if there are more deposits and fewer loans will be extended if there are fewer deposits," and also implemented the specific policy of "dealing with each case on its merits and choosing and supporting what is excellent." Moreover, our banks this year helped enterprises clear up outstanding loans and arrears among them by extending special loans and adopted a series of measures to readjust exchange rate, thus improving and strengthening the macrocontrol of the financial and banking system. By the end of November, all types of deposits within our banks and credit cooperatives increased by 103.6 billion yuan as compared with the beginning of the year and registered a rise of 52.6 billion yuan as compared with the same period last year. All types of deposits within our banks and credit cooperatives amounted to 534.9 billion yuan as of the end of November, up 27.3 percent from the same period in 1985. Among them, the urban and rural people's savings deposits increased by 55.6 billion yuan, a rise of 192 billion yuan as compared with the same period in 1985. Moreover, on the basis of expanding the sources of credit funds, all types of loans increased by a wide margin. By the end of November, all types of loans increased by 124.9 billion yuan, thus registering a rise of 43.1 billion yuan as compared with the same period last year. Meanwhile all types of loans totaled 752.1 billion yuan as of the end of November, a 27.2 percent rise as compared with the same period last year. Through these figures, we can see that the Chinese economic "blood" is circulating in an orderly way. In addition, China's grain output this year increased by over 10 million tons as compared with last year; and it is estimated that China's total industrial output value for this year will be increased by 8.7 percent as compared with last year, and that China's foreign trade purchasing volume for this year will be increased by over 42 percent as compared with last year. These achievements embodied the hard work carried out by more than 1.3 million staff and workers of the Chinese financial and banking system.

Everybody is concerned with China's foreign exchange conditions. Chen Muhua said: "China's ability to pay expenses with foreign exchange is guaranteed." We have learned that China's foreign exchange reserve are quite capable of paying the country's import expenses for 3 months.

As far as this year's financial and banking situation is concerned, the reform of the Chinese financial and banking system is a popular topic of conversation. Chen Muhua said: During the reform of our financial and banking system, short-term money markets have been developed gradually. With the development of loans being extended among some trades and businesses and with the development of lateral financial cooperation, the channels for raising funds have been expanded, thus eliminating the situation in which "money is dead as soon as it reaches its destination" [qian dao di tou si 6929 0451 0966 7333 2984] and the situation in which there is separation between departments and between areas. With the establishment of clearinghouses in 5 cities including Shenyang and Guangzhou, the travelling time needed for funds to reach their destinations has been generally shortened from the past requirement of 2 to 3 days to the present requirement of less than 2 days. Chen Muhua added: However, this is just the initial result. Many problems that emerge during our practices require mutual coordination to promote supplementary work and quicken the pace of our reform.

After summing up this year's financial and banking situation, Comrade Chen Muhua said: The excellent situation has not come easily and has provided good conditions for carrying out financial and banking work in 1987. The general principles of next year's financial and banking work are: While continuing our efforts to strengthen and improve macrocontrol of the financial and banking system, we must make great efforts to ensure that our currency will be kept basically stable, speed up the reform of our financial and banking system, and promote a steady and well-coordinated development of our national economy. Therefore, in close connection with the reform of our financial and banking system, we must control both the supply of currency and total amount of loans. Regarding the utilization of credit funds, we must adopt this procedure: production takes precedence of capital construction; loans extended in the form of floating funds take precedence over loans extended in the form of fixed assets. She added: The development of our socialist construction is bound to bring about contradictions between the supply and demand for funds. These contradictions emerge in the course of the development and they themselves show that our undertakings are developing. In handling contradictions between the supply of funds and demand for funds, we must see to it that the supply of currency keeps pace with China's economic growth rate. In utilizing funds, we must see to it that a proper ratio is maintained between short-term and long-term credits and loans. We must also try to acquire funds through reform and rejuvenation. Only by doing so can we create a relaxed environment for promoting our economic construction and the reform of our economic system. Plans for specialized banks must be separated from funds. Specialized banks should be geared to the needs of the Chinese society. They should do everything in their power to take in more deposits, extend more loans on the basis of having more deposits, tap the potentials of funds, quicken the turnover of funds, expand the sources of funds through these measures, and increase returns from the utilization of funds.

She said: In 1987, we must rejuvenate funds through reform, and develop long-term money markets and issue bonds for enterprises as a means of raising funds. As our banks cannot monopolize the supply of funds, we must guide non-budgetary funds to key construction items through money markets. This work must take objective possibilities into account and must be carried out under leadership. [paragraph continues]



In reforming the economic system and the financial and banking system, all quarters must change various past erroneous concepts and ideas such as "relying upon higher authorities for tackling the problem of money shortages; doing everything possible to borrow money without regard to paying back debts." Enterprises must assume the risk of a loan, while banks must gradually replace credit loans by mortgage loans. This way of doing things helps banks and enterprises improve management and benefits. While improving banking services, banks should participate in the management activities of enterprises and apply financial and banking measures to help enterprises improve management.

CHEN MUHUA ON CREDIT FUNDS MONEY MARKETS

OW070843 Beijing XINHUA Domestic Service in Chinese 0230 GMT 27 Dec 86

[Text] Beijing, 27 Dec (XINHUA) -- Speaking to a XINHUA reporter recently on this year's banking situation, Chen Muhua, state councilor and president of the People's Bank of China, said: This year saw the largest increase in credit funds and a trend towards relaxation in industrial and agricultural loans. There was also heartening progress in reform of the banking system, which is a matter for national attention.

According to statistics, new credit funds organized by banks and credit cooperatives totaled 103.62 billion yuan this year, nearly twice the amount planned at the beginning of the year. The main reason is the substantial increase in urban and rural deposits. Chen Muhua noted: To increase deposits in every possible way is one of the demands the State Council has made on banking work this year. Under the leadership of governments at all levels and thanks to efforts by the various specialized banks, this task was completed successfully. Savings deposits in urban and rural areas grew by 55.6 billion yuan, of which 37.57 billion, the largest increase, accounted for deposits in cities and towns, and 18.03 billion represented deposits by peasant households, respectively up 11.88 billion and 7.23 billion yuan from the same period last year. The balance of deposits in urban and rural areas had amounted to 271.86 billion yuan by the end of November.

The massive increase in credit funds has eased the shortage of circulating loans for industrial purposes and loans to rural areas in recent years. By the end of November, circulating loans for industrial purposes had reached 43.58 billion yuan and loans for agricultural purposes had totaled 29.71 billion yuan, respectively up 115 percent and 145 percent from the same period last year. Banks this year adopted a credit policy of "seeking relaxation through stability and dealing with each case on its merits," an important measure for relieving loan shortages.

In explaining the above, Chen Muhua said: Credit funds ran out of control in 1984. In 1985, banks adopted a control measure of "killing first and resuscitating later," [xian si hou huo 0341 2984 0683 3172] to tighten the money supply, resulting in "indiscriminate retrenchment" in some localities and fund shortages in some enterprises. Had such a measure not been taken at that time, credit funds would not have been brought under control; however, the same cannot be done this year. Not extending money to those enterprises entitled to loans will affect the normal pace of development of the national economy. Accordingly, a policy of "seeking relaxation through stability" was implemented. This policy seems to be working because it has ensured a proper growth rate for the economy and prevented capital construction projects from being launched blindly and investment in external fixed assets from being expanded.

Through credits, banks refused to provide funds to those enterprises producing unmarketable products and sustaining losses as a result of mismanagement, thereby checking their blind development. On the other hand, banks made a point of giving financial assistance to those enterprises whose economic results were really good and whose products were readily marketable. In particular, such financial assistance went to enterprises which earned a good amount of foreign exchange through exports. Banks also helped with the restructuring of production in urban and rural areas, with particular support for grain production. Village and town enterprises in rural areas also were targeted by the banks for support this year. Loans extended by banks and credit cooperatives amounted to 16.58 billion yuan, up 12 billion yuan from the same period last year.

On this year's recall of money from circulation, Chen Muhua noted an improvement in the situation with early withdrawal and a recall of money from circulation did not generally come until June, and it usually lasted less than 3 months. However, 2.8 billion yuan had already been recalled from circulation in February this year, and the net recall lasted until September. This has facilitated the normal circulation of money and maintained monetary stability. China's balance of payments in foreign exchange was greatly improved this year, thereby ensuring normal development of the economy and trade.

Chen Muhua stated: Reform of the banking system was conducted on two levels this year. One was reform on the national level and the other was reform in pilot cities. On reviewing the situation in the past year, specific progress was made in reforming the banking system on these two levels.

Generally speaking, it was a step in the right direction and with notable results in smashing "the big rice bowl" by which banks consumed credit funds. First, the central bank further stepped up its overall banking control. Its method of separating planning from funding in specialized banks and relegating lending powers to banks at the grass-roots level has aroused the enthusiasm of specialized banks and rendered the central bank's overall banking control more flexible and effective.

Second, great progress was made this year in opening money markets and promoting the lateral flow of funds. Chen Muhua said: The financial pattern which has long pertained in China under the commodity economic system can no longer meet the needs of economic reform. In order to promote the early formation of money markets in China, banks opened up new banking businesses this year. These businesses mainly include the following:

1. Banks at all levels experimented with, and popularized, the business of honoring and discounting commercial bills in 10 central cities, including Shenyang, Guangzhou, Wuhan, and Shanghai, and established clearinghouses.
2. Short-term fund redistribution centers were set up in some cities, and interbank loan business was carried out among banking institutions. Surpluses and shortages of funds were readjusted on the basis of differences in the use of funds in terms of interbank relationship, region, season, and time. Short-term money markets for mutual loans were established extensively in all localities, thereby facilitating the circulation of large amounts of funds.

3. Banks issued bonds and stocks on behalf of enterprises, thereby promoting direct financial activities in society and enabling large-scale enterprises and key construction projects to a mass large amounts of funds through the issuance of bonds.

In projecting next year's situation, Chen Muhua said: It is necessary to maintain a sustained growth in the national economy next year. With the contradictions between supply and demand of construction funds still clearly visible, the bank's task of raising money will be heavier. Therefore, efforts should be made to promote fund circulation through reform next year. On the one hand, deposits should be raised in every possible way. On the other, efforts, should be made to increase returns from the use of funds, speed up the turnover of funds, and tap monetary potential. While continuing to develop short-term money markets, it is necessary to vigorously open long-term markets and change the concept of fund-using enterprises, making them undertake risks in raising money through the issuance of bonds on behalf of enterprises and departments. Insurance is a major approach in raising money. New risks should be added and insurance coverage should be enlarged. It is necessary to raise a number of stable, long-term construction funds and provide a steady environment for economic construction, in which the people can live. Banks should exercise overall banking control within the framework of the state plan, and actively promote economic revitalization on that basis. Accordingly, banks should continue to implement the credit policy of "seeking relaxation through stability" next year, choose and support what is excellent, and deal with each case on its merits.

Chen Muhua said: Banks will focus on supporting the following with credit funds next year:

1. Increasing input in agriculture:
2. Supporting efforts to invigorate large- and medium-sized enterprises by granting circulating loans on priority basis and pledging loans for technical transformation in accordance with the plan.
3. Supporting development of lateral economic associations by arranging funds specially for this purpose.
4. Actively supporting foreign trade and exports.

Chen Muhua added: In order to promote a better banking service, all banks may launch competitions next year. On the basis of maintaining the basis division of work, all specialized banks may be permitted to interchange business. In future, banks may select their own customers, and customers their own banks. Banks will not guarantee the supply of funds. In short, banks should support economic development, as well as stabilize currency circulation.

#### GUANGMING RIBAO VIEWS 'RISKS' OF SLOWING REFORMS

HK040224 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0930 GMT 3 Jan 87

[Text] Beijing, 3 Jan (ZHONGGUO TONGXUN SHE) -- An article published in the "Economic Work Research" column of today's GUANGMING RIBAO says that at present the pace of reform should be accelerated; otherwise, the risks will be still greater.



According to the article, economic structural reform in China has now been underway for 7 years. Generally speaking, reforms have mostly been completed in those management systems that are relatively easy to reform. In the next stage, we will have to carry out reforms in management systems whose reform is more difficult and involves greater risk, such as in prices, taxation, fiscal affairs, finances, investment, and other systems. It is precisely because reforms of these systems are relatively difficult and involve greater risk that no breakthrough has yet been made in progress in these sectors.

The article says that we can choose between two risks in the pace of reform: One consists of speeding up the pace of reform, and the other consists of slowing it down. The former indeed carries relatively great risks, but the risks involved in the latter may be even greater.

Analyzing this, the article says the risks involved in halting or slowing down the reforms may be even greater. This is because, first, the simultaneous existence of new and old systems will inevitably cause chaos in the economic operational mechanism and will also provide opportunities for all kinds of unhealthy trends. Second, like a boat moving against the current, the reforms can only retreat if they do not advance, and the inertia role of habitual forces and traditional methods, together with old concepts and lines of thought that have formed over a long time, will unwittingly send the reforms into reverse. Third, if the new systems are unable to play the dominant role for a long time, this will have a psychological effect on society and cause people to lose enthusiasm and confidence for reform, and may even make people sick and tired of reform.

The article says that we must not be "so hasty as to fail to choose the proper road" in speeding up reforms; instead, we should correctly choose a path for accomplishing the goals of reform. There are two such paths: One is to take a good look each step we take; and the other is to draw up a comprehensive plan and carry out reforms in a coordinated way. At this later hour, we should choose the latter path.

#### SOME CITIES 'RETROGRESS' IN ECONOMIC REFORM

HK080815 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1152 GMT 6 Jan 87

[Report: "Certain Cities in China Retrogress in Economic Structural Reform"]

[Text] Hong Kong, 6 Jan (ZHONGGUO TONGXUN SHE) -- According to a report from Beijing, in the course of implementing a new joint-stock system on an experimental basis for a state-operated enterprises in certain cities of the Chinese mainland, a covert factory director responsibility system under the leadership of the party committee in the name of reform, and organs that mix up the party, government administration, and enterprise management have revived again.

According to a latest report by JINGJIXUE ZHOUBAO, in the course of implementing a joint-stock system for the state-operated enterprises on an experimental basis in certain cities, some former party secretaries have become presidents of boards of directors, and many of the directors are former members of the party committees. Some enterprises have set up funds of the board of directors or of the president of the board of directors.

A fairly large portion of profits retained by enterprises after paying tax is distributed by the board of directors, or president of the board of directors. The board of directors and its president have very great power in hand. Therefore, in these enterprises the factory director responsibility system, which has just been implemented, has now been changed again into a factory director responsibility system under the leadership of the board of directors. The former party secretary, in the capacity of the president of the board of directors, has again presided over the discussions on the management policy of the enterprise, manipulated the use of funds, and became the number one man.

The administrative-type specialized company is a company run by government departments aimed at using administrative methods to govern their subordinate factories. It is an organ that makes no distinction between government administration and enterprises. Abolishing such companies is a work focus of the current urban economic structural reform. However, in the course of forming limited-liability companies, some cities have changed the former administrative-type, of the semi administrative-type specialized companies, into joint-stock companies limited which include all enterprises. The manager of the former administrative-type company may become general manager of the joint-stock company limited. Factories, which formerly followed an independent business accounting system and assumed sole responsibility for their profits or losses, have now become factories which follow business accounting and management system at a different level under a unified business accounting and management of the general company.

In addition, some localities have adopted a method of seduction and coercion by making use of "preferential policy." Many joint-stock companies, which were organized on a trial basis by the party committees by relying on administrative method, were resolutely opposed by enterprises at the preparatory stage. Therefore, the party and government leaders implemented a "preferential policy" toward them, including an increase of product development fees, exemption of regulating tax, and so on. They were allowed to draw wages and bonuses in excess of the proportion formerly fixed. Besides, managers of these enterprises might also be promoted to deputy general manager. The purpose in doing so was to compel them to submit.

JINGJIXUE ZHOUBAO points out: They did so in the name of reform. Actually, it was a retrogression. Although such instances were very rare, or were isolated cases, they deserve our attention.

#### XINHUA COMMENTATOR STRESSES ECONOMIC RESULTS

OWO40312 Beijing XINHUA Domestic Service in Chinese 0240 GMT 3 Jan 87

[XINHUA commentator's article: "To Increase Results Is a Task of Top Priority for the Enterprises"]

[Text] Beijing, 3 Jan (XINHUA) -- The beginning of the new year will see thousand of enterprises in China ready to implement many new plans. People in the enterprise circles are being newly encouraged to continue to advance along the broad road of reform.

However, there is one fact not to be ignored by the enterprises. In spite of the overall achievements in fulfilling last year's output value target and maintaining a fairly reasonable growth rate, the economic results were not very good.

Production costs climbed, profit and tax payments to the state dropped, deficits increased, and the capital turnover rate declined for the state enterprises whose production is included in the state budget. These facts of last year have once again proved that, in China's economic construction, it is relatively easy to increase the growth rate, but it requires additional exertion to increase results. For this reason, the enterprises should strive for better results as a task of top priority in the new year.

It is true that an enterprise's poor results have something to do with its quality. But this also has much to do with the guiding thought of the departments at various levels that are in charge of the enterprises and of some enterprise leaders themselves. More often than not, they have ignored the point that to increase economic results is the prerequisite for realizing the goal of quadrupling the industrial and agricultural output value by the end of this century. If there is some temporary difficulty in increasing the output value, everyone from the top to the bottom worries. This is the case particularly when the end of a month or year approaches. When output value increases, even though the economic result is not very good, it is reason enough for the enterprise to report the good tidings, award prizes to its workers, and get press and television coverage to the satisfaction of all.

Products with no market are no better than trash. Production with no economic results is tantamount to waste. This is a very simple truth. As of the end of last November, industrial enterprises covered by the state budget kept a total of 40 billion yuan in their hands in the form of products in inventory. In the warehouses of the commercial departments, between 15 and 20 percent of the commodities are items with no buyers. As commodity production becomes increasingly developed and more and more commodities are made available, buyers will become more and more selective. Commodities that are of low quality but are high priced, commodities that are out of season and thus unmarketable, and commodities that have no market will become more and more difficult to sell. Therefore, the first thing the enterprises should do is do their best to produce commodities that can sell and constantly develop new products, improve the quality of their products, and cut down production costs. This is the best way for an enterprise to increase economic results. People expect the departments in charge of the enterprises and enterprise leaders to make a breakthrough in improving economic results in the new year.

#### JINGJI YANJIU ON INVESTMENT RISKS IN CHINA

HK080451 Beijing JINGJI YANJIU in Chinese No 11, 20 Nov 86 pp 46-49

[Article by Tank Shuans-ning (0781 7175 1380) of the Shenyang Branch of the Chinese People's Construction Bank, Aug 1986: "Investment Risks in China"]

[Text] I. Investment Risks in China [subhead]

Investment risks are the chances and possibilities of incurring losses in the course of investment. We may divide investment risks into natural investment risks (risks due to natural factors such as lightning, fire, floods, earthquakes, and so forth, in the course of investment); social investment risks (risks in investment due to the social acts of individuals or groups such as theft and robbery, accidents, war, political disturbances, and so forth, in the course of investment); and operational investment risks (risks caused by errors and misjudgment in investment policy making and in the course of implementing the designated investment scale, investment direction, geographic distribution of investment, form of investment, and estimates of geological conditions, market changes, actual working conditions, and construction. [paragraph continues])



It can thus be seen that investment risks objectively exist regardless of social stature.

In a society with a normal commodity economy, natural, social, and operational investment risks exist at the same time. The socialist public ownership system, which occupies the leading position in the national economy of our country, can mobilize the whole country's forces to effectively prevent and resist natural investment risks. The continuous perfecting of socialist statutes and the continuous improvement in the people's standard of living have ensured stability in social life and reduced social investment risks. Our country's investment risks have been manifested mainly as operational investment risks brought about by the old economic structure. And the investment form of the supply system has helped those striving blindly for more investments and more projects, thus repeatedly causing the investment scale to become overextended. Although this incorporates the factors that stimulate growth in the building industry and in the building materials industry, it also incorporates adverse factors such as too heavy a social investment burden, too many projects under construction, too long construction periods, too high construction costs, and lower quality in construction work. Backward planning, regulating, and directing methods have caused inaccurate market forecasts, unclear geological data, and the inflexible operation and adjustment of relevant construction conditions. Furthermore, the backward state of construction materials and building methods has caused a lower quality in construction products. The pagoda-type system in investment policy making, and examination and approval, though originally intended to reduce the risks generated by an overextended construction scale caused by the supply system, has caused indirect risks due to prolonged procedures and missed timings opportunities. In the current system of investment examination and approval in our country, the procedures are lengthy and the relevant organs and structures are numerous. Assuming that the current procedure of assessing and approving construction projects consists of 2 lines (in effect there are definitely more than 2 lines) and 8 examination and approval departments (in reality there are more than 8 departments) such as planning, finance, banking, materials and resources, construction, land control, assembling, and the department in charge, and also assuming that under each department there are 2 bureaus and under each bureau there are 2 relevant offices and under these offices there 2 people responsible for making relevant comments (in reality, generally speaking, there are more than this number of relevant departments and people), then on each procedure on a project has to go through the hands of  $8 \times 2 + 2$  to the second power plus 2 to the third power equals 112 people and 2 procedures mean 224 people are involved. If the documents stay in the hands of each person for only 1 day, a total of 224 days will be required for clearance. During this period, each person has a veto power but nobody can make a final decision. If one person casts a veto, then the turnover will have to be repeated. Naturally, this is a formalistic type of examination and approval procedure and in reality there may be certain deviations but there are no differences in quality. It can be seen from this problem that while each person is microeconomically doing an earnest and steadfast job in performing his duties and functions, the majority of the people macroeconomically practice the utmost irresponsibility toward an enterprise. Through poor timing and missed opportunities, this "Parkinson's disease" in investment policy making has brought with it indirect investment risks.

The most fundamental cause of generating the above-mentioned investment risks is the supply system in investment. The form of investment in this supply system not only makes people strive for large-scale investment, while ignoring investment benefits, but also, due to the kind of irresponsible investment activities, affects the development and utilization of highly efficient investment operations, regulations, and control tactics. It compels people to set up an increasing number of examination and approval organs to implement investment regulations although this has achieved the opposite results.

## II. Investment Risk Points in Our Country [subhead]

Investment risks are objective in character. Due to differences in investment forms, the reflections cast by investment risks on relevant persons or bodies of different investments are different. We call the investment risks reflected on persons or bodies related to certain investments, investment risk falling points or just investment risk points. Outside the country, investment risk points first of all are reflected on the bodies of enterprises. Since enterprises are owned by capitalists, they are reflected on the bodies of banks. Because of the concrete nature of investment risk falling points, people truly feel their existence.

In our country, as seen from these phenomena, the whole of China is a "peaceful kingdom" for investments. First of all, economically there are no risks. As seen from the banks, in the past they made payments on investments without compensation. Investment funds came from the finance department while the projects were wholly approved and fixed by the State Planning Commission and the bank acted only as the cashier of the finance department and its payments required no returns. At present, of the banks' investment funds, over 80 percent are finance department funds. Although in name this portion of the funds has changed to credit and loan funds, their nature as funds of the finance department has not changed. Still, the State Planning Commission determines the projects, the bank lends the funds, repayment is by means of profit deliveries, and if repayment is not made the finance department can write off the loan. The banks themselves do not have their own funds. They do not have any source for sufficient credit and loan funds, and whether or not the loans are repaid does not concern them (the banks do not have to be concerned since the projects are determined by the State Planning Commission). Again, as viewed from the operational activities of the banks, in the past, receipts and payments were along two lines. All receipts were delivered upward and all payments were allocated by the above. Good or poor performance in the use of funds did not concern them. Though a bank performs well in the use of the funds, it cannot receive a single cent. Even if all the funds were thrown into the sea, the bank's staff would still retain their "iron rice bowls" just the same. Although now the practice of making a percentile division of profits is in force, it is linked only to credit and loan funds which occupy a very small ratio of the whole, while the relatively larger portfolio of funds of the finance department is in no way related to the operational benefits of the banks. Hence, to the banks there is no risk to speak of.

As seen from the enterprise, generally speaking, in the past the form of investment was by allocation from the finance department and the state-run enterprises simply lived on the state in the long-term. The finance department took all the responsibilities for the good or bad results in the operation of the projects. This generated no risks to the enterprises. Following the transformation of state appropriations to bank loans, the profits originally delivered to the finance department are now used to repay loans. So far as the enterprise is concerned, it is all the same whether the money goes to the bank to repay loans or is delivered to the finance department. Its interests are not affected at all and no risk has been generated. Because the large bulk of funds of the finance department have no risks and historically never had any risks, regarding the small portion of credit and loan funds, the enterprises fully believe that there cannot be any risks. What they actually hope for is that the banks will write off the defaulted loans or the loans will be repaid by the finance department. In their minds, fundamentally there is no idea at all of repaying loans or the concept of risks. [paragraph continues]

What is in their minds is the psychological urge to undertake more projects and earn more merits in their records. And this psychology is frequently borne out by reality which in turn brings about a vicious cycle: Investment impulse -- writing off of defaulted loans -- a bigger investment impulse.

Let us look at the collective enterprises. Due to the fact that state-run enterprises write off risks, the entire society is encouraged to seek more investments and to undertake more projects, resulting in sharp increases in the prices of the limited quantities of building materials available. At the same time, the collective enterprises, using their clever business accounting tactics and copying the tactics of the state-run enterprises resulting in the cancellation of their risks, likewise manage to avoid the development of risks. (For example some township and town enterprises have bought rice on the market at 800 yuan per ton and used the commodity to exchange in kind, and for an equal quantity, surplus steel from the steel mills).

As seen from the individual, since the enterprises' investments have no risks, the workers and staff members duly receive their salaries, wages, and bonuses. Thus, to the individual, there is no risk to speak of.

Next, there are no risks in the realm of politics. First, this is due to the collective leadership structure equally sharing the risks of errors in investment policy making. Second, frequent changes in investment policies have brought about a psychology of resistance on the part of the people and a sense of risks cannot be developed. Thus, regarding the same kind of fixed assets investments, while you may want to take into account the scale, others may not care about the scale at all; or, while today they may like to account for the scale, tomorrow they may change their mind. The sacred mask of planning is torn away and turned into a ball of clay to be twisted around. At one time, the manager's responsibility system to control the scale of investment was enforced and did play a definite role in keeping investment inflation under control. But once the economic environment turned slightly better, what "violation of discipline" was in the past is considered to be experience today. Thus, people have gained an understanding and would rather stay unchanged in the face of the many changes. Those who are more adventurous will stand to gain while the meek ones will only suffer. The situation has become "a policy determined from the above, a counterpolicy will follow from below." Third, the existing assessment standard of the cadres blurs the transparent character of investment risks. On the one hand, people's microeconomic activities contribute to the formation of macroeconomic benefits but, on the other hand, impede people's understanding of macroeconomic benefits, mistaking the microeconomic benefits for macroeconomic benefits. Following from this, people's assessment standards on whether cadres are right or wrong is twisted, causing people to like big things and meritorious deeds and to be anxious for immediate success and offhand profits, eventually generating an impulse for investments. Fourth, the legal system in our country is not equal in its role of preventing and suppressing investment risks. Erroneous decisionmaking in investments is the biggest extravagance and is also the biggest crime. However, the starting point of most people responsible for policymaking is to aim at the resultant benefits and not at extravagance. Each and every policy decision supposedly has gone through the decisionmaker's meticulous calculations. In the event of a loss, due to the original motive being different and comprehensive as well as because of historical reasons, the Chinese legal system, when dealing with such problems, usually makes an exception and exempts higher-ranking officials from prosecution. Hence, it can hardly exercise control over investment risks.



The above conditions show, on the one hand, that investment risks are objective, and, on the other hand, in reality there is no investment risk to speak of. This allegation of investment having no risks indicates that the investment risk points in our country have developed a deviation, namely, a deviation to the body of the state. This explains the symptoms of the investment benefits not being ideal.

### III. Transfer of Investment Risk Points in Our Country [subhead]

The fundamental way of changing the not ideal investment results in our country must start by reforming the current form of investment in our country and effect the transfer of investment risk points according to the order from the state to the bank, from the bank to the enterprise and from the enterprise to the individual, subjecting each and every person related to investment, to investment risks, and seek non-risks from among the risks.

1. Regarding the transfer of risk points from the state to the bank. At present, the construction bank of our country which engages in investment work has simply become the cashier of the finance department. Since the money comes from the finance department, the projects are determined by the State Planning Commission and the loans can be written off in the event of non-repayment, the bank hardly has the urge to promote improvement of the resultant benefits or to exert any pressure to ensure repayment of the loans in due course. Therefore, first of all, it is necessary to turn the funds used by the finance department on productive capital construction into deposits in the construction bank as the bank's credit and loan funds. The finance department will become a depositor of the bank and the construction bank will pay interest on the deposits to the finance department. After that, the State Planning Commission, based on the state's macroeconomic needs, determines the number of investment plans to be forwarded to the construction bank, which has the discretion to select from among the plans the best ones to grant loans to. Since the original financial funds calling for no repayment have been changed into credit and loan funds that require repayment, the construction bank will incur risks and will be compelled to give due consideration to the benefits of the project concerned and to the ultimate recovery of the loan.

As seen from the angle of the state plan, enforcement of this method does not affect the state's macroeconomic benefits since arrangement of the projects is based on the multiple investment plans determined by the State Planning Commission. At the same time, due to improved microeconomic benefits under macroeconomic control, the macroeconomic benefits are in turn really improved. This is much more realistic than the so-called macroeconomic benefits under the conditions of poor microeconomic benefits. As seen from the angle of finance, since the financial funds have been converted into credit and loan funds and since the construction bank must pay interest on the deposit of the financial funds, not only is the recovery of the financial funds ensured but the financial funds will also be increased. As for projects that before price reform produce higher benefits to society but lower benefits to the enterprises, such as energy, communications and raw materials projects, the problem can be temporarily solved by converting the interest payment on the financial deposits to interest deduction. Regarding nonproductive projects and projects calling for losses according to policy, they may be taken as businesses which the finance department entrusts to the construction bank.

2. Regarding transferring the investment risk points from the bank to the enterprise. Following the investment risk points falling on the bank, the bank, aside from seriously examining the project concerned, must also consider how to shift the risk to the enterprise. [paragraph continues]

The forms of transfer may be: (1) If the borrowing unit which fails to repay the loan on expiry has an account with the bank, the loan sum will be directly deducted from the account; if the unit concerned has no such account in the bank, other banks will be entrusted to make the deduction. (2) The borrowing unit may be required to provide a guarantee. The unit providing the guarantee must be an economic body that is financially strong; if upon expiry of the loan, the borrowing unit is unable to repay the loan or if it has already been liquidated or amalgamated, the guarantor will bear the responsibility for the loan. Under such conditions, the bank may require the guarantor to provide a second guarantee. This is principally to prevent any accident from happening to the first guarantor. In the event that the borrower fails to repay the loan on expiry, the bank has the right to deduct the amount from the account of the guarantor or that of the second guarantor. (3) The bank may require the borrowing unit to provide a security. The borrower may use, as a security, various kinds of financial holdings showing property ownership rights, commodity ownership rights, creditor's rights and so forth, such as various kinds of securities as share certificates, treasury notes, financial bonds, company bonds, bills of lading, warehouse receipts, and so forth, as well as the borrowing unit's fixed properties and non-fixed properties such as real estate, machineries, equipment and so forth. Following the provision of securities by the borrowing unit, in the event of the unit's inability to repay the loan upon expiry, the bank has the right, under the supervision of the judicial department, to auction the securities and use the proceeds to repay the loan.

3. Regarding the transfer of investment risk points from the enterprise to the workers and staff members. After the bank has transferred the investment risk points to the enterprise, the enterprise -- besides forecasting the risks by sundry means of measurement, such as on the project's expectation worth, benefit standard differential, variation coefficient, and so forth -- may consider transferring the investment risks to the workers and staff members. The transfer method may be: (1) Inviting the staff to subscribe to shares in the investment, such as the enterprise making use of the share subscriptions of the staff members and the bank loan for joint investment in the project so that the staff will generate a centripetal force for feeling "all being in the same boat" and prevent the occurrence of risks. (2) Enforcing the measure of mortgaging a part of the individuals' consumption materials. Putting a portion of the consumption materials of the workers and staff members to better create investment benefits and reduce investment risks. (3) Contracting the investment project to the staff members under a "dead" or irrevocable contract. Any excess payments should be borne in part or in whole by the workers and staff members of the unit taking up the contract and any balances should be given, in part or in whole, to the workers and staff members of the contracting unit for their disposal to induce and encourage the workers and staff members to avoid investment risks.

#### IV. Two Important Preconditions for the Transfer of Investment Risk Points in Our Country [subhead]

To effect the transfer of investment risk points from the state to the bank, then to the enterprise, and then to the workers and staff members requires the provision of a series of conditions. Among them two important conditions are reform of the ownership system and reform of the structure of the construction bank.

In order not to break the traditional concept of the public ownership system featuring the embodiments of being "large in size and collective in nature," it will be impossible to effect the transfer of investment risk points. Reform of the ownership system is the foundation of our country's current all-round reform including reform of the investment structure and it is also the precondition for the transfer of investment risk points. The so-called "large in size and collective in nature" should imply equally sharing the risks.

To strengthen the macroeconomic control of the central bank and preserve the existing specialized banks of the country simultaneously, on the one hand we should develop investment banks and investment stock companies of various forms under the ownership system. (These investment banks and investment stock companies under the various forms of the ownership system will arrange the investment loans according to the state's multiple investment plan and the central bank's base figure investment credit and loan plan). On the other hand, we should reform the structure of the construction bank. We should materialize the conversion of the role of the construction bank to that of a banking nature. (Possessing only a unitary banking function; regarding such businesses on the financial side such as managing a capital construction budget, the financial affairs of the enterprises would do the construction work, and so forth, and they should be treated as businesses entrusted to the bank's care). The bank's deposits should be stabilized. (The capital construction outlay funds of the finance department should be treated as deposits in the construction bank). The bank should be able to effect the merging of funds in diversified forms. (The construction bank should be permitted to deal in businesses of the initial-grade long-term capital funds market and of the second-grade long-term capital funds market and of the second-grade long-term capital funds market and to compete with other investment banks in the markets). The bank should possess the power of decision making in granting loans. (The bank should be permitted to make its own selection of projects for granting loans in the state's multiple investment plan from among the portion of the central bank's base figure credit and loan plan assigned to the construction bank). The bank should be allowed to set up branch organs in a scientific manner. (Breaking the current method of setting up branch organs according to the regional or provincial demarcation line, the bank should be allowed to set up branch offices according to construction needs and in the economic zones, thus avoiding administrative intervention division of the bank's operations (economically the construction banks at various levels should be independent accounting units; within the bank itself, the responsibility system for loans should be installed and strictly enforced). Only by doing this can the construction bank, in its investment credit and loan activities, realize the unification of power, responsibility and profit, strengthen the sense of investment risks, self-consciously reduce risks to safety, and perform a good job in the management of funds.

RENMIN RIBAO COMMENTATOR ON ENTREPRENEUR EXAMPLE

HK301015 Beijing RENMIN RIBAO in Chinese 22 Dec 86 p 1

[Commentator's article: "A Message on Invigorating Large and Medium-Sized Enterprises"]

[Text] Peasant entrepreneur Wu Jilong successively contracted for the workshops of several state enterprises, very quickly lifting them out of the red to show a profit. Immediately on hearing the story, it seems inconceivable. But after careful thought, we find that it is not difficult to explain.



The secret of Wu Jilong's success in handling enterprises on a contract basis lies in his separating enterprise ownership from the power of operation.

The enterprises contracted for by Wu Jilong are different from individually run or jointly operated ones. They are the same as state enterprises in regard to the variety of products, their specifications, their quality standards, their factory prices, and relevant taxes handed over to the higher authorities, with state plans strictly carried out. The socialist system of ownership has not changed because of enterprises being operated by Wu Jilong on a contract basis. But in line with the provisions of the contract, Wu Jilong operates enterprises on his own, with the practice of unity of power, responsibility, and profits. Higher-level departments-in-charge are not allowed to freely intervene in the internal affairs of the enterprises. The more profits obtained by the enterprise, the higher the income for the operator. The operator undertakes to make up any loss suffered by the enterprise. The operator assumes certain risks. In the words of Wu Jilong, bungling the job means facing the prospect of being hanged. In the sense of operating independently, the enterprises contracted for by Wu Jilong are a bit like individually operated ones.

The enterprises operated independently by Wu Ji'ong on a contract basis are not appendages to an administrative organ, but are instead relatively independent economic entities involved in commodity production and operation. He carries out state plans, but there is no interfering "mother-in-law" above and no passing the buck below. In distribution, he can break with the "big pot" and the "iron rice bowl," basing remuneration entirely on the amount and the quality of work and consumption and exercising the power to fire unsuitable management personnel and workers. As the operator, he shows enthusiasm. So do the workers and management personnel. His ways of doing things can hardly be introduced given the existing management system of our state enterprises. This is to say that many existing large and medium-sized enterprises have not been brought to life, not because of a lack of talent but because they are bound by the old system, with their talent not brought into play.

We must separate the power of enterprise operation and ownership, providing a vast world of activity for all people bent on serving the state and courageously devoted to exploration within the framework of state policy and law. This is an experience Wu Jilong has gained for our benefit by contracting for enterprises.

We must carry out reforms along the road of separation of the power of operation and ownership and invigorate large and medium-sized enterprises. This holds out great promise.

#### SLOW-DOWN IN SPECIALIZED HOUSEHOLDS DISCUSSED

HK080608 Beijing NONGMIN RIBAO in Chinese 24 Dec 86 p 5

[Unattributed Article: "Why Has the Development of Rural Specialized Households Slowed Down? -- An Investigation of the Development of Tianjin Municipality's Rural Specialized Households"]

[Text] Recently, we discovered through an investigation that the once thriving development of rural specialized households has tended to slow down and decline since the latter half of 1985. On the one hand, the number of specialized households has dropped drastically. [paragraph continues]

Taking Wuqing as an example, the number of specialized households throughout the county has dropped by 25.5 percent in the first half of 1986 compared with the same period in 1985. On the other hand, many of the specialized households still in operation are full of anxieties in the face of great difficulties. Some of them are on the brink of bankruptcy, heavily in debt. Why should such great trouble have emerged in the development of rural specialized households? The reasons might be largely summed up as follows:

First, problems in ideological understanding. The chief expressions of this are: 1) Some cadres lack an overall understanding of the development of specialized households. At the initial stage in their development, they believed everything was fine with the specialized households, to which they gave their full support. But once they discovered some individual specialized households had violated the law and discipline, gone in for crooked ways, and made ill-gotten fortunes, they began to completely negate specialized households by seizing upon a few points and ignoring the overall picture. This has greatly dampened the enthusiasm of the specialized households for production. 2) A small number of cadres have serious ideas of egalitarianism. They set the development of specialized households against the realization of common prosperity. They believe that the prospering of specialized households is the "blossom of a single flower," neglect the rightful interests of specialized households, and go in for artificially "cutting down even the outstanding." As a result, specialized households are not given a free hand to develop themselves. 3) They set collective enterprises against specialized households undertaking the same trade, and the latter are checked in every possible way, with restrictions placed on them at every level. 4) Some of the specialized households worry about a change in policies, and will "put a halt to their own development when things seem to take a turn for the better," without making long-term plans for their management in production.

Second, the effects of the readjustment in policies, especially the change in some policies on supporting specialized households: 1) Regarding the policy of making loans, relevant departments have stipulated that the ceiling for loans to specialized households should be 10,000 yuan since the second half of 1985; that when loans are used for circulating funds, the self-raised proportion is to be no less than 30 to 40 percent; and that when loans are used for equipment, the self-raised proportion is to be no less than 50 percent. Liu Zhenxiang, a major household specializing in hog breeding in Balizhuang, Jinghai, was given a loan of 20,000 yuan through a credit department, with which he bred 316 hogs. In June 1986, the number of hogs was 375. He needed 15,000 yuan to build new pens and to buy new breeds and fodder. He sent in his application for a loan on several occasions but got nowhere because of his failure to meet the above-mentioned requirements. So he had to face bankruptcy. 2) Concerning pricing policy, according to reports from households specializing in stock breeding, the price for fodder has continued rising since the second half of 1985, while the prices of their products have continued falling. This brought about a drastic drop in the number of households specializing in chicken breeding, a drop of 44 percent in less than 6 months. 3) Regarding the policy of rewards, at the initial stage of the development of specialized households, relevant departments of all suburban areas, counties, and villages drew up a series of policies on rewards. But since the beginning of 1986, many villages have canceled these policies, and some villages have failed to make good these policies even if they are not canceled. 4) An increase in deductions and taxes. Yi Wen, a household specializing in transportation in Balitai Village, Nanjiao District, earned an income of 7,800 yuan through transportation in July 1986. However only 165 yuan was left to him when expenditures of all descriptions were deducted.

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Third, problems existing in the operation of specialized households themselves. Two general situations are: 1) Some specialized households are eager to get rich, regardless of their own conditions, but the results often run counter to their wishes. For example, An Fenghai, a household specializing in farming in Ninghe, became well-off through production of a developing nature. But beginning in 1985, he was too eager to increase his income, and blindly went in for the management and planting of some Chinese herbs, and went so far as to purchase two bulldozers. As a result, he was locked into the purchase of the bulldozers, while the Chinese herbs proved to be unmarketable. The loss and the funds lying idle involved more than 12,000 yuan. 2) The lack of technical know-how. Wu Jingcai, a specialized household of Jinagtianzi Village, Hinghe, made an attempt to incubate chickens for sale. However, lacking technical know-how and begrudging the money necessary to hire a skilled hand, he failed, and the project incurred a loss of 2,000 yuan.

#### TAX CONCESSIONS GRANTED TO BOOST STEEL MARKETS

OW080452 Beijing XINHUA in English 0147 GMT 8 Jan 87

[Text] Beijing, January 8 (XINHUA) -- To promote better distribution of steel products, China has decided to offer tax breaks to some enterprises involved in the production of steel goods.

Enterprises using steel are exempt from tax on added values if they sell their products at state-approved markets, at the market price.

Also, those enterprises wanting to exchange surplus products for raw materials, for use in state-approved projects, can now buy raw materials at government-set or negotiated prices.

Enterprises which have fulfilled state quotas, and have stockpiled surplus steel products for three months, can sell these products at the market price and are exempt from business, income and regulatory tax. They can also hold on to the income as working capital.

China has opened seven steel markets in Shanghai, Tianjin, Shenyang, Wuhan, Chongqing, Xian, and Shijiazhuang. Similar markets in other larger cities can enjoy the same tax breaks if they receive State Council approval.

#### LATE REPORT: PROFESSOR, WRITERS DISMISSED FROM CPC

OW091255 Tokyo KYODO in English 1253 GMT 9 Jan 87

[Text] Beijing, Jan 9 KYODO -- The Chinese Communist Party has decided to dismiss Fang Lizhi, vice president of the University of Science and Technology, and writers Wang Ruowang and Liu Binyan as party members for supporting the current student movements for more democracy and freedom, according to Chinese sources here.

The sources said that the party held the three, considered to be ideological supporters of the movement, responsible for inspiring the demonstrators with "anti-party bourgeois free thought."

The three will be criticized in an official newspaper in the near future, they said.



ANHUI RIBAO CRITICIZES BOURGEOIS LIBERALIZATION

OW081245 Hefei Anhui Provincial Service in Mandarin 1200 GMT 7 Jan 87

["Full text" of ANHUI RIBAO commentator article: "The Trend of Thought of Bourgeois Liberalization Must Never Be Allowed To Spread Unchecked" -- date not given]

[Text] Toward the end of 1986, some young students repeatedly marched in the street to create a disturbance. A small number of them carried erroneous slogans against the four cardinal principles, leaving a very bad impression with the masses. A very essential reason for the occurrence of such incidents was that these young students were affected by the trend of thought of bourgeois liberalization and lost the ability to distinguish between right and wrong with regard to the paramount issue of upholding or negating the four cardinal principles.

The young students' enthusiasm in showing concern about the fate of our nation and the future of reforms is understandable. However, we must seriously expose the very small number of people who agitate the trend of thought of bourgeois liberalization, propagate opinions against the four cardinal principles, and take advantage of the students' enthusiasm and lack of experience in society to achieve their political aims.

To uphold the four cardinal principles, it is necessary to take a clear-cut stand in opposing bourgeois liberalization. In recent years, among those doing ideological and cultural work in our province, a very few individuals have unscrupulously expressed various views that depart from the four cardinal principles by taking advantage of reforms and the opening of our province to the outside world. As a result, the trend of thought of bourgeois liberalization has spread to a certain extent, especially in institutions of higher learning. This is definitely neither a groundless accusation nor a wanton blow aimed at them, but rather a fact that is obvious to all. On many public occasions inside and outside the province, they have publicized the view that both the socialist movement as a whole and socialist construction in our country are failures. They have said that Chinese-type socialism is merely a term and even ranted that the Chinese Communist Party is now black, that its color should be changed, and that the principle for building the party should be reconsidered. They have also expressed the view that no positive success has ever been achieved in using Marxism as the party's theory and guiding ideology, that there is no need to use it as a guidance, and so forth.

What is their proposition, after all? Their proposition is to discard socialism and communism as illusive things and to practice all-round westernization in China -- that is, not only to absorb Western science, technology, and culture wholesale but also to take in the politics, ideology, moral codes, and all other things from the West. Theoretically, they have slipped too far away, but even more, they have used crafty words to instigate the young students to ask the party and the people's state for so-called absolute democracy and unrestricted freedom and even urged the students to do this by extremist methods. Among those making such remarks and doing such things are Communist Party members. Are these people really like communists? Do they have any characteristics of Marxism? Are not they too unbridled in words and deeds?

In today's China, if one advocates bourgeois liberalization, he is inevitably opposed to the four cardinal principles. The four cardinal principles are the foundation of our country, the common political basis on which the people of all nationalities in our country unite together to march forward, and the fundamental guarantee for the smooth progress of our socialist modernization program. These principles have been included in the Constitution, or the fundamental law, of our country, and every Communist Party member must abide by them. Any words and deeds of Communist Party members against the four cardinal principles are words and deeds that violate not only the CPC Constitution but also the Constitution of our country. If we allowed these words and deeds to spread freely and unrestricted, the Constitution of our country would be basically undermined, our country would suffer another setback, and the party would lose its fighting capability. In that case, it would be empty talk for the party to lead the people in building socialism with Chinese characteristics.

Seven years ago, Comrade Deng Xiaoping delivered an important speech on upholding the four cardinal principles, exhorting certain people to be vigilant and to guard against the spread of the trend of thought skeptical about and opposed to these principles. He has since then talked about this issue often. Not long ago, the 6th Plenary Session of the 12th CPC Central Committee reaffirmed and emphasized the stand against the practice of bourgeois liberalization. Evidently, two categories of people lack a sufficient understanding of this.

One category consists of the above-mentioned people who advocate bourgeois liberalization. Blinded by lust for gains, they have overrated their own capability and underestimated the strength of the party and people. Because they act radically against the people's interests and the tide of history, they are, of course, firmly opposed by the broad masses of people. In the future, history will surely give them retribution. The other category comprises some comrades in our ranks. They do not understand sufficiently or not at all the harmful effects of the trend of thought of bourgeois liberalization, and before erroneous or even reactionary opinions, they behave weakly and dare not struggle boldly and assuredly against these opinions. Certainly, this state of affairs cannot be allowed to continue. To ensure the smooth progress of our socialist modernization program and to safeguard the people's fundamental interests, we must take a clear-cut and firm stand and be bold and assured in criticizing the trend of thought of bourgeois liberalization and in safeguarding and upholding the four cardinal principles.

#### SHANDONG SETS 1987 AGRICULTURAL PRODUCTION PLAN

SK090857 Jinan Shandong Provincial Service in Mandarin 2300 GMT 8 Jan 87

[Text] In 1986 our province showed an increase in its grain output and in its per peasant income. Thus, the province has taken a stable step in increasing agricultural production this year.

The general demands set by the province for agricultural work in 1987 are to correctly look at the situation, to enhance confidence, to go all out, to maintain the increase in grain output, to create new output value, and to increase incomes.

In 1986 our province decreased its acreage of farmland sowed in the autumn because of the serious drought and had poorer growth in wheat crops. Therefore, some comrades have harbored the fear of difficulties and have lacked confidence in reaping an agricultural bumper harvest this year.

In dealing with the issue of how to correctly look at the rural situation, Vice Governor Ma Zhongchen delivered a speech at the provincial rural work conference concluded on 8 January, in which he pointed out: In looking at the problem, we should look at its essence. In appraising whether the rural situation is fine, we should determine whether the productive force in the rural areas has developed, whether the peasants' livelihood has been upgraded or improved, and whether commodity production in the rural areas has been further strengthened. Only by looking at the problem in such a way can we enhance our consciousness and confidence in overcoming difficulties and reaping a bumper harvest this year. In order to continuously maintain the good development trend in the province's agricultural production, we should further readjust the production structure of agriculture, concentrate on grasping grain production, expand the acreage of farmland sowed in the spring, increase the per-unit yield in order to increase the per-mu yield, and should vigorously do a good job in conducting the material supply of chemical fertilizer, fuel oil, and agricultural production means.

While increasing the investment in developing material production, efforts should be made to increase the investment in developing financial and intellectual resources. We should vigorously popularize the scientific techniques in dry-land and space agriculture and plastic-sheet breedings to accelerate the pace of building the agricultural bases of the commodity economy and to bring into play the benefit of investment as soon as possible. The current task of top priority is to vigorously implement the plan for spring production and to successfully conduct the management of wheat fields to lay a solid foundation for reaping a bumper agricultural harvest this year.

#### SHANGHAI MAYOR AGAINST BOURGEOIS LIBERALIZATION

OW071155 Shanghai City Service in Mandarin 0100 GMT 7 Jan 87

[Excerpt] Addressing the annual meeting of the Shanghai Municipal Society for Economic Restructuring on the afternoon of 6 January, Mayor Jiang Zemin said: Economic restructuring is a huge project requiring a positive and cautious attitude and a step-by-step approach. Mayor Jiang noted: We should persist in taking the Chinese-style socialist road, break away from traditional economic modes without ever returning to the capitalist road, and take a clearcut stand against bourgeois liberalization. However, we may study and assimilate the positive elements in the capitalist economy for use in developing our planned commodity economy.

On the key points of Shanghai's 1987 reform, Mayor Jiang said: The key points remain the effort to invigorate enterprises, to implement the factory director responsibility system, and to conduct experiments in enterprise shareholding. It is necessary to launch experiments before making any major moves, and to take a scientific approach in pursuing the moves. [passage omitted]



KMT SPIES UNCOVERED, CONVICTED IN GUANGDONG

HK081359 Hong Kong WEN WEI PO in Chinese 8 Jan 87 p 2

[Report: "Guangdong Uncovers a Taiwan Spy Ring, and 7 Spies Are Sentenced to Imprisonment Ranging From 1 to 7 Years"]

[Text] Guangzhou, 7 Jan -- Guangdong provincial State Security Organ has recently uncovered a Taiwan KMT spy ring, and seven spies have been solemnly and justly convicted by the judicial organ.

Chen Lien, a spy of the Taiwan KMT's "Mainland Working Committee," escaped from the mainland to Hong Kong in 1971. In December 1981, he was recruited by the Taiwan KMT spy ring, and joined the spy organization. Later, he slipped into Guangdong Province to set up a "communication station." Since 1983, Chen had repeatedly sneaked into Huidong Country to develop a spy organization and arrange those covert agents to collect local political, economic and military information. He wrote the intelligence in invisible ink, and sent it to the spy organization abroad. In February last year, Chen and his confederates were arrested in one swoop.

Chen Hsien-mu, a spy of the Taiwan KMT's "Mainland Working Committee," was formerly a cadre of a unit in Haifeng County. He escaped to Hong Kong in 1982 to avoid punishment because of his economic crime. In Hong Kong, he threw in his lot with the Taiwan spy organ, and joined the spy organization. He furnished to the spy organ information on the organizational structure at all levels of Haifeng County, authorized size of the units in the county, defense and communication facilities, and so on. He also introduced his wife, a woman called Teng, to a KMT spy Liu Yu-ying. Teng later joined the spy organization. At the end of 1984, Chen was sentenced to one year's imprisonment by the British government in Hong Kong, because he had no identity card. When he was in jail, he accepted the task assigned by the Taiwan spy organization of sneaking into the mainland after his release, and hide there for a long time in order to collect information on the central documents. In August 1985, after serving a sentence, he was repatriated. When he intended to use this opportunity to hide on the mainland, he was arrested. Another spy Liu Yu-ying was also caught.

Another Taiwan KMT spy Tsai Ching was once sentenced to 15 years' imprisonment by the judicial organ. After his release in 1980, he escaped to Hong Kong. In May 1985, he was recruited by the spy organization. After that, he went to the mainland several times to contact a covert agent to teach him the method of writing intelligence in invisible ink. In May 1985, he again returned to the mainland to contact the agent, and incited a worker call Yang to defect. He was arrested by the state security organ. These cases were tried by the judicial organ. The evidence was conclusive, and the suspects admitted their guilt. Verdicts were passed according to law. Che Lien, Chen Hsien-mu and Tsai Ching were sentenced to imprisonment of 15, 5 and 10 years respectively. Another 4 criminals were also sentenced to imprisonment of 10, 6, 3 and 1 year respectively.

GUANGXI'S SUCCESS IN FOREIGN INVESTMENT REPORTED

OW081943 Beijing XINHUA in English 1557 GMT 8 Jan 87

[Text] Nanning, January 8 (XINHUA) -- Southern China's Guangxi Zhuang Autonomous Region developed 275 enterprises with foreign capital -- almost 200 of them with direct foreign investment -- as of the end of 1986.

At a regional government news briefing held here today, Wei Chunshu, chairman of the government, said all the contracts signed with foreign investors are worth 670 million U.S. dollars.

The businesses include joint-ventures, cooperatives and sole foreign investment, according to the chairman.

According to Wei, the investors have come from more than 20 countries and regions including Australia, Britain, Denmark, Italy, Japan, Malaysia, Thailand, Singapore, the United States and Hong Kong and Macao.

The region hopes to attract more foreign investment to develop its non-ferrous metal industries, building materials and water and electricity projects as well as light industry, medicinal materials and tourism industries in order to catch up with better developed provinces, Wei said.

The regional government will hold an export fair in Shenzhen next June and a similar one in New York in August next year. A third fair in the city of Nanning will be used to talk with foreign business people about other group projects.

The regional government has worked out or improved preferential policies and methods to encourage more foreign investors. "These methods have benefited and will benefit both parties," Wei said.

The new preferential terms include exemption of fees for the use of land space by foreign-invested projects producing export goods or using advanced technology, except those in the downtown areas of Guilin, one of China's best scenic city.

Agriculture, forestry and animal husbandry projects as well as projects in 48 mountainous countries of the region will be free from income taxes, the chairman said.

#### HUNAN MEETING MARKS INAUGURATION OF CPPCC JOURNAL

HK090237 Changsha Hunan Provincial Service in Mandarin 1100 GMT 8 Jan 87

[Text] A gathering was held this morning to mark the inaugural issue of the HUNAN ZHENGXIE BAO [HUNAN CPPCC JOURNAL]. Responsible persons of the provincial party and government Liu Zheng, Shen Ruiping, Shi Xinshan, Chen Xinling, Yin Changmin, Zhou Zheng, and others attended. Hu Yaobang, general secretary of the CPC Central Committee, wrote the inscription for the journal's title.

This 4-page journal will be based on the united front and geared to society. It will fully reflect the views and demands of the CPPCC members at all levels, democratic parties, mass organizations, and figures of various sectors, and serve the effort to unify the motherland and invigorate China. The journal includes columns on CPPCC forums, answers to questions, literary and historical issues, and on Hong Kong, Taiwan, and overseas affairs. The first issue will come off the press on 10 January.

SICHUAN LEADER DISCUSSES TASKS FOR 1987

HK080201 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 7 Jan 87

[Text] Vice Governor Gu Jinchi delivered a report on the basic situation in reforms and construction in 1986 and the goals and tasks for 1987 in a speech at the provincial party school on 7 January. He said: The general scheme for economic work in Sichuan in 1987 is to persevere in reforms and opening up, develop the economy steadily, readjust the economic structure, work hard to improve economic results, and create a relatively relaxed economic and social environment for reforms.

He said: In common with the whole country, the situation in reform and economic construction in Sichuan in 1986 was good. National income, calculated according to comparable prices, rose by about 6 percent over 1985. Total industrial output value is estimated at 48.1 billion yuan, a rise of 6 percent. Agricultural output value is estimated to have increased by 6.2 percent.

After summing up the new developments and outstanding achievements in the province in the past year, Gu Jinchi pointed out: We must squarely face and correctly deal with the difficulties and problems in reforms and construction. In carrying out reform and the four modernizations, we must, first, uphold the four basic principles and oppose wholesale westernization. We must follow a path of reform and construction that conform to China's national conditions and has Chinese characteristics.

Second, we must strengthen unity and discipline. We must devote all efforts to reform and construction and oppose all erroneous words and deeds that cause disunity and sap morale.

Third, reform and the four modernizations required hard work on our part. We must attach importance to reality and do practical things. We must put an end to empty and abstract phrases and slogans.

Fourth, problems and difficulties in reform and construction can only be resolved in an environment of stability and unity.

Vice Governor Gu Jinchi said: The initial arrangements for the province's economic plan in 1987 call for total industrial and agricultural output value of 85.3 billion yuan, an increase of 6 percent over 1986; for an increase of 5.8 percent in national income; for a grain output increase of 1.5 billion kg; and for an increase of 30 yuan in average peasant incomes.

From now on, we must do a thoroughly sound job in launching the work of 1987 and strive for new achievements in reforms and construction.

SICHUAN STUDENTS, PLA DISCUSS STUDENT UNREST

HK090215 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 8 Jan 87

[Excerpts] On the afternoon of 7 January, some Sichuan University students and some cadres and fighters of the Chengdu materials depot on Chengdu Military Region jointly held a discussion on upholding the four basic principles and opposing bourgeois liberalization. [passage omitted]



The discussion was based on the recent action of a few students in taking to the streets in a number of cities. The Sichuan University students said: Students must respect and cherish themselves and avoid infantile ideas at all costs; they must not be misled and used by a handful of bad people. We university students should cherish the current excellent situation and study hard to repay the motherland. We should have an overall and correct understanding, based on the situation as a whole, of the democratic rights conferred on the citizens by the Constitution, and use them correctly. If we take things out of context and act hastily, we will only end up doing things that pain our friends and delight our enemies.

They also said: Everyone is equal before the law. We cannot indulge or deal softly with the illegal activities of a few people. We must take a clear-cut stand in opposing people who oppose the party and the four basic principles and indulge in bourgeois liberalization. The university students also appealed for stepped up ideological and political work in the schools. The students should be given more education in loving the party, the motherland, and socialism.

The comrades of the PLA unit said: The four basic principles are the fundamental thing in governing the country. Only by upholding the four basic principles can we ensure the smooth progress of reform and can our socialist cause enjoy good prospects. Everyone pledged: We must unite as one and make common efforts to preserve and develop the political situation of stability and unity.

#### SICHUAN OFFICIAL STRESSES FAMILY PLANNING

HK090211 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 8 Jan 87

[Text] Huang Qizao, member of the Standing Committee of the provincial party committee, said at a recent provincial conference on contraceptives, held in Xindu County, that the provincial party committee has called on the province to achieve the following six tasks, in order to implement the spirit of the national family planning work conference and raise family planning work in the province to a new level:

1. Unswervingly stabilize the province's existing family planning policies.
2. During the New Year-Spring Festival period, the province must conduct extensive propaganda and education in upholding the basic national policy and improving the quality of the nation. It is necessary to carry out penetrating and patient ideological work on couples of child-bearing age.
3. Attach great importance to scientific and technological services, and strive to do a good job in preventing pregnancies before they occur.
4. Vigorously strengthen grass-roots building and assign full-time family planning cadres and service personnel at township and village level.
5. Strengthen the building of the family planning contingent, step up training, and improve cadre quality.
6. The leaders at all levels must go to areas where there are many problems and great difficulties to investigate and study, help to solve problems, and rapidly effect an improvement there.

YUNNAN PEOPLE'S CONGRESS MEETING ENDS 30 DEC

HK011053 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 30 Dec 86

[Excerpts] The 25th meeting of the 6th provincial People's Congress Standing Committee which had lasted 8 days successfully completed all its agenda and concluded in Kunming this morning.

This meeting adopted a decision of the Yunnan People's Congress Standing Committee on holding the Fifth Session of the Sixth Yunnan Provincial People's Congress and a resolution on the approval of the regulations governing the autonomy of Dali Bai Autonomous Prefecture, Yunnan Province, and of the regulations governing the autonomy of Gengma Dai-wa Autonomous County, Yunnan Province; adopted a decision of the Yunnan Provincial People's Congress Standing Committee on the revision of the detailed rules and regulations on the election of the county-level people's congresses, Yunnan Province; adopted a resolution of the Yunnan Provincial People's Congress Standing Committee on stepping up the work for the poor areas, a resolution on strengthening land management, and a resolution on strengthening public security work and promoting the further improvement of social order; and adopted the written main points of the work of Yunnan Provincial People's Congress Standing Committee in 1987. The meeting also adopted the namelist of appointments and removals decided by Yunnan Provincial People's Congress Standing Committee.

(Zhang Song) was appointed the director of the provincial Agriculture, Animal Husbandry, and Fishery Department; (Li Gui) was appointed director of the provincial Forestry Department; (Tong Ganghai) was discharged from the post of the director of the provincial Forestry Department; (Zhao Shushen) was appointed the director of provincial Medicine Management Bureau.

This morning's plenary meeting was presided over by provincial People's Congress Standing Committee Vice Chairman Qi Shan. Attending were Vice Chairman Yan Yiquan, Ma Wendong, Wang Shichao, Wang Lianfang, and Yu Huoli. Attending the meeting as nonvoting delegates were Vice Governor Li Zhengyou; provincial Higher People's Court Acting President Yang Yitang; provincial People's Procuratorate Deputy Procurator (Wu Guangwen); some commission members of and advisers to the Nationalities Affairs, Legal System, and Financial and Economic Commissions of the provincial People's Congress; responsible persons of departments concerned at the provincial level, of autonomous prefectural and city people's congress standing committees, of prefectural people's congress work liaison groups, and of some county people's congress standing committees.

YUNNAN SECRETARY ARRANGES CADRES ASSESSMENT

HK081340 Kunming Provincial Service in Mandarin 1100 GMT 7 Jan 87

[Excerpts] This morning, the Yunnan Provincial CPC Committee held a mobilization rally on assessing leading cadres of organs at the provincial level in a democratic way. Provincial party committee Secretary Pu Chaozhu made mobilization of and arrangements for people to carry out this work in our province.

Pu Chaozhu said: According to the circular on a number of problems, including readjusting incompetent leading cadres at the county level, which was recently issued by the Organization Department of the CPC Central Committee, it is demanded that in the light of the work in 1986, an assessment be conducted in a democratic way, with the examination of the work of leading cadres at and above the county and departmental levels of the party and government organs as the main work. This is an important event of building inner-party democratic life and of building the ranks of cadres.

The provincial party committee Standing Committee has seriously studied and discussed the document of the central authorities and decided to seriously do well in assessing leading cadres at and above departmental level of the party and government organs in a democratic way between New Year's Day and the Spring Festival in conjunction with summing up the work at the end of the year.

Pu Chaozhu talked about three problems on how our province can do well in assessing leading cadres at and above the departmental level of the party and government organs in a democratic way:

1. It is necessary to profoundly understand the important significance of assessing leading cadres of the party and government in a democratic way. He said: Assessing leading cadres in a democratic way is a measure for restoring and carrying forward the party's excellent traditions and putting inner-party democratic life on a sound basis, an important link of reforming the system of cadres, and an effective way for cadres to accept the masses' supervision. Therefore, this work must become a system and we must carry out an all-round, objective, and impartial assessment of leading cadres at and above the departmental level in a democratic way at the end of every year in conjunction with summing up the work and in the light of realities. We must also continuously sum up our experiences in the course of practice and gradually perfect our work.

2. The specific views of leading cadres of the party and government must be assessed in a democratic way. Pu Chaozhu said: The objects of assessment in a democratic way this time are mainly leading cadres at and above the county and departmental levels of the party and government organs, including trade unions, CYL, women's federations, and other mass organizations, people's congresses, CPPCC, courts, and procuratorates. The secretary and deputy secretaries of the provincial party committee, governor, and vice governors must also be assessed by the masses. [passage omitted]

3. It is essential to pay attention to several problems. Pu Chaozhu stressed: In assessing leading cadres in a democratic way, we must adhere to the principle of seeking truth from facts, correctly conduct criticism and self-criticism, and pay attention to getting rid of interference. In addition, we must seriously do a good job in summing up our work at the end of the year and in summing up the work of assessing leading cadres in a democratic way so that we can accumulate experiences, find a way, and gradually put the system of assessing leading cadres in a democratic way on a sound basis.

Finally, Pu Chaozhu demanded: Party committees and party organizations at all levels must really strengthen leadership over the work of assessing leading cadres in a democratic way. Secretaries must personally grasp this work and play their exemplary and leading role. Organization departments must send people down to understand the situation, to sum up experiences, and to carry out supervision and inspection so as to avoid deviations and to prevent doing things perfunctorily and superficially.

At the rally, the Kunming City CPC Committee introduced the participants to its work of and experience in assessing leading cadres in a democratic way.



TIANJIN CPC PLENARY SESSION SETS FORTH 1987 TASKS

SK090603 Tianjin City Service in Mandarin 0030 GMT 8 Jan 87

[Excerpts] The Sixth Plenary Session of the Fourth Tianjin Municipal CPC Committee was held at Tianjin Guesthouse from 3 to 7 January.

The session pointed out that we should have a clear-cut stand to oppose bourgeois liberalism and make persistent efforts to promote the reform and opening work.

The work priorities of the municipal party committee adopted at the session pointed out that the municipality should carry out its work for this year in line with the overall plan for socialist modernization, deeply conduct the economic system reform to serve economic construction and conduct the political system reform in a step-by-step manner, consciously strengthen spiritual civilization, and further carry out the policy of opening to the outside world.

The session stressed: A situation characterized by political stability and unity is a basic prerequisite for ensuring the smooth progress of socialist modernization and a fundamental guarantee for achieving the reform and opening work. We should persist in the socialist line, people's democratic dictatorship, party leadership, and Marxism-Leninism-Mao Zedong Thought. On the premise of ensuring social stability, we should make efforts to maintain a sustained, steady economic growth rate and to achieve the work in all fields.

The session discussed the current situation and the tasks ahead of the municipality; and discussed, examined, and approved the 1987 work priorities of the Tianjin Municipal CPC Committee and the municipal party committee's decision on convening the Tianjin Municipal Conference of Party Delegates.

Attending the session were deputy secretaries of the municipal party committee, including Li Ruihuan, Wu Zhen, Tan Shaowen, and Nie Bichu; Standing Committee members of the municipal party committee, including Wang Xudong, Ji Zenghui, He Guomo, Chen Yiyi, Zhang Dinghua, Zheng Guozhong, and Bai Hualing; and members and alternate members of the municipal party committee. Also attending the session as observers were members of the CPC Central Committee and members of the Central Advisory Commission and the Central Discipline Inspection who are currently in Tianjin, members of the municipal Advisory Commission and the municipal Discipline Inspection Commission, and principal responsible comrades of the municipal People's Congress Standing Committee, the municipal government, and the municipal CPPCC Committee.

The work priorities of the municipal party committees which are divided into eight parts are as follows:

First reform. The fundamental goal for economic system reform is to arouse the enthusiasm, initiative, and creativeness of cadres and the masses to promote the development of social productive forces. The key to conducting reform is to enhance the internal vitality of the enterprises and the grass-roots units throughout the whole society. The major measure for reform is to comprehensively carry out various forms of economic responsibility systems where duties, rights, and interests are linked with one another.

The reform in all fields should be carried out in a coordinated and persistent manner. We should both resolutely and prudently conduct reform.

Second, opening to the outside world. In 1987, the municipality should make great achievements and new breakthroughs in the work of opening to the outside world. [passage omitted]

Third, readjustment. The basic tasks for this year's readjustment work are to readjust industrial structure, trade structure, and product mix in line with the requirements of developing open-oriented and export-oriented economy and light and processing industries. We should link the readjustment work with the interests of the enterprises, and make efforts to enhance the enterprises' vitality to conduct self-readjustment. [passage omitted]

Fourth, cultivation of talented persons and technological progress. Firmly grasping elementary education is a key link of this year's educational work. Institutions of higher learning should prominently solve practical problems and guide college students and young intellectuals to take the correct path to adulthood. Efforts should also be made to conscientiously grasp education for adults. In order to make technological progress, we should further focus scientific and technological work on solving the practical problems related to economic construction and industrial and agricultural production. We should respect and love talented persons and make rational use of and organize forces to manage existing talented persons in an effort to bring their roles into full play.

Fifth, people's livelihood and urban and rural construction. This year, the municipal party committee and the municipal government plan to do 20 concrete deeds to improve the livelihood of the urban and rural people. [passage omitted]

Sixth, ideological and moral construction. [passage indistinct]

Seventh, democratic and legal construction. We should conduct education on democracy and legality among all the people, further carry forward people's democracy and consciously enhance inner-party democracy. [passage omitted]

Eighth, party building and the construction of leading bodies. The general requirements for the construction of leading bodies this year are to comprehensively, accurately, and persistently implement the principles of ensuring that the ranks of cadres become more revolutionary, younger in average age, well educated, and more professionally competent; to promote the regularization of cooperation between new cadres and old ones and replacement of the old by the new; and to continue grasping the work of straightening out party style.

Li Ruihuan, deputy secretary of the municipal party committee, made a speech at the meeting held on the afternoon of 7 January. [passage omitted]

LIAOWANG EXAMINES POLITICAL SITUATION IN TAIWAN

HK190803 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 50, 15 Dec 86 pp 24-25

[Article by Chen Bing (7115 0393): "Taiwan's Political Situation as Viewed From the Elections"]

[Text] The 1986 election of new "central people's representatives" in Taiwan has ended in a relatively peaceful atmosphere at last. There were no grave problems in the current elections and all kinds of people, both inside and outside the island, felt relieved about it.

Through an all-out wrangling between the Kuomintang (KMT) and the Tangwai [outside the party] forces, the results of the elections were published at last. Of the 84 seats for "representatives to the National Assembly" and 73 seats for "members to the Legislative Yuan," the seats contested in the election, the KMT captured 127 and the Tangwai had 30 in all, of which 23 went to the newly established "Democratic Progress Party," including 12 seats for the "Yuan" and 11 for the "Assembly." The KMT won about 70 percent of the vote and the Tangwai about 30 percent, of which 20 percent was captured by the "Democratic Progress Party." Compared with previous elections, the number of Tangwai candidates elected increased remarkably. The "Democratic Progress Party" got five new seats in the "Yuan." However, the Tangwai's percentage of the overall vote did not increase considerably along with the establishment of a new party. On the KMT side, it lost so much in the current elections as to upset its previous 70 percent vote-getting record. These election results, which contain a lot of useful information, provide people with a basis for appraising and sizing up Taiwan's future political situation.

The current elections were mainly characterized by two parties competing with each other. During the elections, both sides spared no effort. This, coupled with the incidents of forced return by overseas party organizers to Taiwan, made the election situation more intense and complex. People interested in Taiwan's social progress and stability were worried about whether the current elections would proceed peacefully. Luckily all parties concerned exercised restraint and forbearance. Most voters in Taiwan desired peace and stability. Therefore, it was possible for clashes and problems to be avoided in the elections.

In terms of the results of the current elections, although the Tangwai captured several seats more than they did in previous elections, their percentage of the overall vote was far smaller than previously expected. This may be a minor setback for the Tangwai, who were eager to expand their forces by taking advantage of the edge of the establishment of a new party. They can be considered frustrated victors. During the elections, confronted with aggressively challenging Tangwai forces, from Chiang Ching-kuo down to grass-roots ordinary party workers, the KMT exercised restraint in all respects, carefully dealing with the situation as if wading in deep water or treading on thin ice. This performance was a reflection of the restlessness on the part of the KMT authorities, and it also showed that the pressure from within and without the island might grow to an unbearable extent. As far as the KMT is concerned, although the number of votes they got was as satisfactory as expected, they are, after, all a victor lacking in self-confidence.

Let us make a comprehensive survey of the political views expressed by both sides during the elections. The KMT stressed the upholding of the constitutional government, stability in the social and economic orders, and pursuit of social welfare. [paragraph continues]



Compounded with crises in legally constituted authority and succession, international isolation, and a series of political incidents and economic events, the KMT still managed to maintain its record of capturing more than 70 percent of the vote in the elections. This is greatly related to their political pursuits of catering to the mentality of the majority of voters, who desire stability and better social welfare. It demonstrates that the KMT's "political innovations" have a certain appeal to the electorate and that it still has superior sociopolitical resources.

In view of the results of the current elections, in the days to come, the KMT will continue to cautiously push forward its various "political innovations," including the lifting of martial law and the ban on political parties and take the safeguarding of social stability as the prime objective in its administration. If moderates still form the mainstream faction in the new party and its statements and actions do not pose a threat to the KMT rule, the KMT will continue to adopt a lenient policy of making limited concessions toward the former. If, however, radicals form the mainstream faction in the new party and its statements and actions directly jeopardize the very existence of the KMT regime, the KMT hardliners will compel the authorities to take tough measures against the former. As a result, the pace of the implementation of the KMT's "political innovations" will slow down.

With regard to the political views expressed by the Tangwai during the current elections, stress was placed on social ideology. Apart from forcefully criticizing the administration of the KMT as they did in the past, the Tangwai, taking the opportunity given by the current elections, concentrated mainly on giving publicity to the new party's political views and ideals. This reflects the mentality of the new party, which is eager to win the approval of voters and to make itself appear more vigorous and impressive. Seeing that the number of votes they got in the current elections was far less satisfactory than expected, in the days to come, the Tangwai will stress strengthening its grassroots organizations and launching more media publicity campaigns. The party's relations with overseas party organizers will be at a delicate stage from which awkwardnesses will be likely to emerge. The contention between radicals and moderates within the new party will become fierce, and the possibility of radicals becoming its mainstream faction cannot be ruled out. At the same time, once the new party gets a firm foothold, its grassroots organizations gradually become organizationally sound, and its leadership at the core becomes relatively stable and firm and strong, it will surely launch a party-to-party challenge against the KMT and a political situation in which two poles, acting against each other, will emerge in Taiwan at last.

What is worth mentioning is that during the elections, there were incidents of forced return of overseas party organizers. The long-planned forced return by Hsu Hsin-liang was particularly great in strength and impetus. Naturally these incidents have helped boost the popularity of the new party inside and outside the island and contributed to the successful election of specific Tangwai candidates, including Hse Hsin-liang's younger brother Hse Kuo-tai. It has been reported that Hsu Kuo-tai, who was elected by winning some 140,000 votes, became the top vote-getter among the other elected Tangwai candidates. However, the incidents have also had some adverse effects on the new party, because "boosting one's morale by presuming the influence of foreign forces" and violent behavior are, after all, not to most voters' taste. What is interesting is that in handling these incidents, the KMT authorities adopted a policy of leniency and forbearance, and they acted as though they were being reasonable and sensible and were taking the interests of the whole into consideration before the electorate, thus gaining the unexpected benefits of winning the sympathy and understanding of the media. It can thus be seen that the majority of voters stand for forbearance and peace and are opposed to the use of violence and of foreign influence to boost one's morale. [paragraph continues]

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With this attitude, they hope to safeguard social stability in Taiwan. All people engaged in politics have to deeply consider and attach importance to the desire on the part of most voters for peace and stability.

Generally speaking, the current elections gave the various political forces in Taiwan an opportunity to contend with one another and to form an alignment among themselves. In a certain sense, it was also an extensive public opinion pool. It can be predicted that the future political situation in Taiwan will move to the pattern of "bipolarity, pluralism, and one-ization." The so-called "bipolarity" refers to the situation in which the ruling KMT represents one pole of political force and opposition parties serve as another. The two build up their own strengths and wage struggles with each other for power in the political and economic spheres. This will become the main theme of Taiwan's political struggle. The so-called "pluralism" refers to the phenomenon in which political organizations in Taiwan become pluralized; the difference between the two major KMT factions, the conservatives and the enlightened, will further widen and factional strength-showings and struggles will become more frequent; the splits within the "Democratic Progress Party" will further intensify; taking advantage of the situation, other political forces will rise or form new political parties or new mass organizations; and to safeguard their own interests and to exercise democratic rights, nongovernmental public figures of all social strata will also form various self-supporting, relief organizations to carry out activities, such as anticorruption and opposition to the establishment of factories by Du Pont. These pluralistic phenomena will become more striking after the lifting of martial law and the ban on the formation of political parties has become a fact, in particular, after the end of the "Chiang Ching-kuo era." The so-called "one-ization" refers to the "localization of the KMT political power." In the course of carrying out the "political innovations," which contain "six major political innovation topics for discussion," including "substantiating the central people's representative organs" and "implementing the laws and regulations for local self-government," the KMT authorities will promote more Taiwan-born officials to offset the "localization" edge of the Tangwai forces; the contradiction and discrepancy between Taiwan-born officials inside and outside the party may probably gradually diminish; and local forces will build up strength, capitalizing on this opportunity. Under these circumstances, the overseas "Taiwan Independence" forces may probably find themselves in a greater predicament, as they are gradually losing their cohesive force.

#### CPC VIEWS TAIWAN'S DEMOCRATIC PROGRESS PARTY

HK080655 Hong Kong KUANG CHIAO CHING in Chinese No 171, 16 Dec 86 pp 10-13

[Article by Wei Wu (7279 0124): "The CPC Pays Close Attention to the Development in Taiwan's Political Situation and Makes a 3-Point Analysis of the 'Democratic Progress Party'"]

[Excerpts] What Does Hu Yaobang's Meeting With Huang Shun-hsing and Chang Chun-nan Show? [subhead]

In an article entitled "New Changes in the CPC's Policy Toward Taiwan" published in its latest issue, KUANG CHIAO CHING gives an exclusive report on the story behind the meeting of Hu Yaobang, general secretary of the CPC Central Committee, with Huang Shun-hsing and Chang Chun-nan, Tangwai [outside the party] personages from Taiwan. The meeting aroused greater attention in the outside world because it took place at a time when Taiwan's Democratic Progress Party had just been established. Prior to this, the CPC had always adopted an ambiguous attitude toward Taiwan's new political parties. [paragraph continues]

Since Hu Yaobang is both general secretary of the CPC Central Committee and reportedly a principal member of the CPC's leading group working on Taiwan, his view on Taiwan's political situation can naturally reflect the latest trends of the CPC's policy toward Taiwan. For this reason, the meeting was very sensitive both in timing and the contents of the talk.

#### The Second Point Merits Our Attention [subhead]

The article "New Changes in the CPC's Policy Toward Taiwan" points out that "Hu Yaobang emphatically made three new points": First, "We strive to solve the Taiwan issue with the method of peaceful reunification but we do not exclude other methods"; second, "we take those in authority in Taiwan as our principal negotiating partner but we also attach importance to other patriotic forces and the strength of the people"; and third, after reunification "we shall look after the interests of those in authority who have rendered great service to reunification and, at the same time, we shall also look after the interests of the other patriotic forces and the Taiwan people."

The first and third points do not carry any new meaning. Such views have been stated and stressed by CPC leaders on numerous occasions in the past and have become well-known key part of the CPC's policy toward Taiwan.

What merits our attention is the second point.

#### To Whom Does "Those in Authority" Refer? [subhead]

In appearance, Hu Yaobang's remarks on holding talks with those in authority in Taiwan are different from the "2-party talks" and "KMT-Communist cooperation" frequently mentioned by CPC leaders. For example, in his two meetings with overseas academics in June 1983, Deng Xiaoping stressed that the talks between both sides of the Taiwan Strait "are not ones between the central and local governments but ones between two parties." What does the abovementioned delicate difference mean? Can we thus draw a conclusion that there have been "new changes" in the CPC's policy toward Taiwan?

Taking advantage of my recent visit to Beijing, I consulted a friend, who is also an official specializing in the work toward Taiwan, on these questions. I received a negative reply. In his view, when Hu Yaobang talked about "those in authority," he actually referred to the KMT government. He said the formulation was used in a specific atmosphere during the conversation. At that time, both Huang and Chang told Hu Yaobang that many Taiwan people were very dissatisfied with the CPC's policy of taking the KMT as a principal negotiating partner, holding that the CPC somewhat looked down upon the strength of the Taiwan people. Hu Yaobang, however, repeatedly explained that the CPC looked upon the KMT as its negotiating partner because it was in authority in Taiwan and that only by holding talks with those in authority would it be possible to remove the fundamental obstacles to reunification.

Huang Shun-hsing and Chang Chun-nan should be praised for their courage because, as "guests," they dared to speak out and air differing views to the general secretary's face. Hu Yaobang also deserves praise because, as a party leader, he did not feel ashamed to ask and learn from the rank and file but listened with respectful attention to other people's views. However, all this is insufficient proof that the CPC has revised its policy toward Taiwan following the major development in the island's political conditions.



**The CPC Still Looks Upon the KMT as Its Negotiating Partner [subhead]**

KUANG CHIAO CHING reports: After the meeting, both Huang and Chang held that the CPC leader's formulation on negotiating partners contains a new meaning that, if the Taiwan people should gain political power, they will also become negotiating partners. In my view, there was perhaps a gap between their understanding and Hu Yaobang's original meaning.

The birth of Taiwan's Democratic Progress Party created a furor in Overseas Chinese society. The Chinese official media also promptly reported this event. According to some friends, however, the emergence of the new party did not produce great repercussions within the CPC's top echelons. This does not mean that the CPC treats Taiwan's political situation lightly, because its policy is based on deep-rooted concepts and on judgments developed therefrom.

The CPC has raised the slogan of "two hopes." In its practical work toward Taiwan, the CPC has profoundly realized that only when the KMT government, which controls Taiwan's political power, agrees to the proposal on peace talks and reunification is it possible for the cooperation between both sides of the Taiwan Strait to enter a stage of practical operation. Ever since the CPC defined the strategic policy of using peace talks to promote reunification, it has always regarded the promotion of the third KMT-Communist cooperation as a key element of its policy toward Taiwan. Hu Yaobang's conversation with Huang and Chang has proved this point. On 12 November, at a meeting in Beijing to mark Sun Yat-sen's birthday, Peng Zhen stressed: "A crucial issue today is for the KMT and the Communist Party to begin talks on a reciprocal basis." This consistent remark also fully shows that there are no indications that the CPC has changed its basic strategy toward Taiwan.

"If we want to hold peace talks, we can only talk with those in authority and, since the KMT is in authority in Taiwan, we shall have to take the KMT as our negotiating partner." This concept has taken root in the minds of CPC leaders. It is believed that Huang Shun-hsing and Chang Chun-nan also have profound understanding of the CPC's state of mind. [passage omitted]

**After the Democratic Progress Party Was Set Up, the CPC Held Numerous Meetings to Analyze the Political Situation. The CPC Has a 3-Point View Regarding the Democratic Progress Party [subhead]**

The question now is that, after a new party has emerged in Taiwan, and particularly after the "Democratic Progress Party" has substantially increased its strength and momentum following its success in seizing 11 "National Assembly" seats and 12 "Legislative" seats in the recent elections, will the CPC revise its policy and beckon to the new party, considering that new changes have emerged in Taiwan's various political forces?

A friend disclosed to me that, after the news of the establishment of the Democratic Progress Party in Taiwan spread to Beijing, the relevant departments of the CPC held numerous meetings to analyze the political situation and, after synthesizing all data and information obtained through various channels, they finally reached the following conclusions:

First, the emergence of the new party represents a major development in the island's political situation and therefore should be closely followed.

Second, since the nature and stand of the new party are still unclear, the official quarters will not comment about it until further observation. The Chinese press circles may give objective reports, but should refrain from subjectively making known their positions.

Third, a key issue involving whether it is necessary to adjust the policy is that, although the new party has a certain popular basis, its replacement of the KMT is quite out of the question and that, since a coalition government is also unlikely to emerge in Taiwan at present, the focus of our future work toward Taiwan will still be the KMT authorities.

#### Hu Yaobang Inquired About the New Party's Membership [subhead]

In my view, if the new party should have any impact on the CPC, it is more factual to say that the CPC has paid closer attention to the "tendencies of Taiwan's independence" rather than say that it has aroused conjectures of succession of power. According to my friend, in his talk with Huang and Chang, which lasted more than 2 hours, Hu Yaobang did not treat the topic of the new party at great length. He only inquired about the new party's membership without specifically airing his views. Later, in a speech at a meeting to mark Sun Yat-sen's birthday, Peng Zhen mentioned at great length the need to guard against some people who "support Taiwan's independence" and carry out "two Chinas" or "one China, one Taiwan" activities. An authoritative source pointed out that Peng Zhen's remark was specially added after careful consideration by the relevant quarters and at the approval of the Secretariat and that it was by no means Peng Zhen's personal, casual statement but an implicit reaction to the island's political conditions. The above-mentioned facts have indirectly proved my analyses and judgments.

#### Conjectures on Hsu Hsin-Liang's Return to Taiwan [subhead]

In its utterances and manners, the CPC has clearly showed its urgent desire for the "2-party talks." However, has it directly interfered in the recent political development in Taiwan? A Hong Kong newspaper report on 21 November is worth pondering. The report says: "The intelligence agency of the Taiwan Government has reportedly learned from Yu Qiangsheng, former director of the Intelligence Department of the Chinese Ministry of State Security who is now living in hiding in McLean, Virginia, that Hsu Hsin-liang's return to Taiwan had been orchestrated by an invisible giant hand ... and that as soon as Hsu set foot on Taiwan, a certain party would employ killers of the Philippine New People's Army to assassinate him. This would certainly lead to political upheaval on the treasure island and touch off large-scale street violence, which would probably bring down the KMT overnight."

#### Does the CPC Hope for a Revolution To Break Out in Taiwan? [subhead]

The report does not make clear who the "certain party" was. However, since the news came from Yu Qiangsheng, it naturally referred to the CPC. The impression people got after reading the report was that the CPC is disposed to throw Taiwan's political situation into disarray in an attempt to reap benefit from it. It is impossible to prove the truth about the news in a short time. However, people with a little understanding of the CPC's policy toward Taiwan know that the CPC actually does not want a revolution on the island, and wants even less to be involved in the island's "revolutionary actions." On the contrary, the CPC wants to see a stable political situation in Taiwan. The reasons are quite simple. First, the KMT has consistently upheld a one China stand. So long as Taiwan is controlled by the KMT, it will never take the road of independence. [paragraph continues]

As for the question of when to achieve reunification, it can be given further thought and discussed later. Second, the CPC fondly hopes that after reunification Taiwan will preserve its social stability and economic prosperity under the principle of one country, two systems (on this point it is the same as the Hong Kong pattern) and not a devastating situation brought about by "revolution."

In analyzing this news to me, an authoritative person pointed out: Even if the Chinese intelligence departments or diplomatic personnel had a low "level," they would not have been so muddleheaded as to deliberately act in violation of the guidelines repeatedly stated by the central authorities on major principles and policies toward Taiwan and to adopt the foolish action of "bringing down" the KMT as was reported. According to this authoritative source, the newspaper report was sheer nonsense and could even be regarded as having ulterior motives. [passage omitted]

#### How Does the CPC Place Its Hope on the Taiwan People? [subhead]

The CPC has made the assertion, "We place hope on the Taiwan people." However, how much hope has it placed? How much effort has it made? A regrettable fact is that some CPC leaders and a large number of their subordinates working on Taiwan have scant knowledge about it and quite a few people are quite ignorant. After chatting with a few CPC officials, I realized that they take "self-determination" and "Taiwan's independence" as one and the same thing and they even regard "provincialism" as a "tendency toward Taiwan's independence." If they cannot make clear what other people are thinking, how can they begin to talk about "winning over popular will?" The CPC seemingly still fails to understand that the reason Taipei dares to turn a deaf ear to Beijing's calls for the "establishment of transport, trade, and postal relations" is that the principle of "three don'ts" still has some popular basis on the island and that so long as the people on the island are still quite wary and afraid of the CPC, the KMT can certainly preserve the island's stable situation. Usually, in the face of a diversified situation, one should make diversified preparations. Otherwise, it will be difficult to make a breakthrough in the situation. Does the CPC have any new idea as to how to cope with this state of affairs? [passage omitted]



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HONG KONG

COMMITTEE NOT TO MAKE BASIC LAW DRAFT PUBLIC

HK040322 Hong Kong SUNDAY STANDARD in English 4 Jan 87 p 3

[Text] The first draft of the Basic Law will not be made public because of the differing views contained therein, says a Basic Law Drafting Committee member.

Speaking at the opening ceremony of the "Antarctic Fantasy" photograph exhibition, Dr Louis Cha told reporters the draft would be a "very preliminary" one and since differing views are contained in it, it would be meaningless to publish in case it is overruled later.

For that reason, he said, the draft will not be published. Dr Cha said the drafting of the Basic Law is a division of labour. "For example, Mr Szeto Wah is involved in the section concerning civil servants."

The relationship between the legislature and the executive branch of the Government has also been discussed, he said. "Views about the drafting of the Basic Law have been expressed almost fully."

Another drafting committee member, Mr Xiao Weiwn, is busy preparing the draft. Dr Cha said he has a part in the drafting of the document, but added "it is impossible for us to live together in Beijing" to facilitate the drafting of the document.

Asked whether the drafting of the Basic Law is related to the political review later this year, Dr Cha said they are separate matters. "It is like each one doing his own things," he added.

On the subject of the relationship between the drafting and views of Hong Kong people, Dr Cha said changes to the Basic Law because of the opposition of the local people may be necessary later on.

He said the recent student unrest will probably have no major effect on talks on the Basic Law.

Commenting on the collection of Hong Kong people's views on the drafting, Dr Cha said: "The collection of Hong Kong people's views on the matter has been quite adequate." He added that consultative members from different professions such as doctors and lawyers had been pursuing "active talks" with others to get opinions on the Basic Law.

MACAO

PRC-PORTUGAL HANDOVER AGREEMENT EXPECTED IN MAY

LD031357 Lisbon International Service in Portuguese 1300 GMT 3 Jan 86

[Text] A Portuguese-Chinese agreement on the handover of the Portuguese-administered territory of Macao to China is expected to be signed in Beijing in May of this year, a Foreign Ministry source has stated.

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